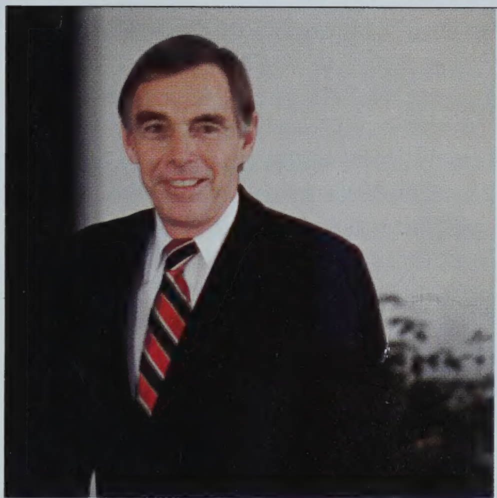
Gould Inc. Annual Report 1978

An Electrical/Electronics Company

1978 Gould Annual Report

Gould, through the contributions of its highly-skilled managers plus our commitment to technology and product development, has become a major factor in the electrical/electronics industry.

A continuation of emphasis on both these factors will bring about technical as well as market leadership, a basic fundamental of a strategy for growth.



William T. Ylvisaker
Chairman and Chief Executive Officer

Financial Highlights

	1978*	1977 Restated**	% Change
Net Sales	$1,869,944,000	$1,619,583,000	15.5
Net Earnings	$ 101,033,000	$ 92,844,000	8.8
Capital Expenditures	$ 106,103,000	$ 66,182,000	60.3
R&D Expenditures	$ 79,688,000	$ 68,908,000	15.6
Stockholders' Equity	$ 685,470,000	$ 608,490,000	12.7
Net Earnings per Share of Common Stock	$ 3.77	$ 3.69	2.2
Net Earnings per Share of Common Stock, Assuming Full Dilution	$ 3.56	$ 3.38	5.3
Dividends per Share of Common Stock	$ 1.48	$ 1.24	19.4
Book Value per Share of Common Stock	$ 24.67	$ 23.27	6.0

*Reflects change to LIFO inventory valuation method

**Restated for Financial Accounting Standards Board Statement No. 13 "Accounting for Leases"

Gould Inc.
10 Gould Center
Rolling Meadows, Illinois 60008
312.640.4000

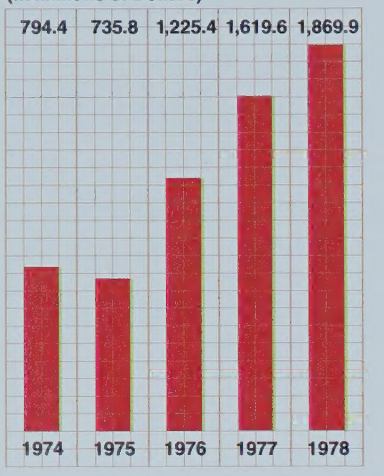
Annual Report for the year ending December 31, 1978.

Contents:

Report to Gould Stockholders

Net Sales

(In Millions of Dollars)

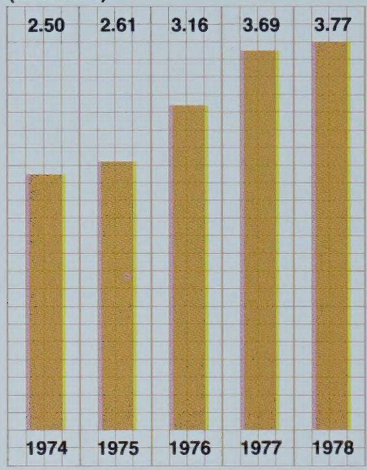


Net Earnings

(In Millions of Dollars)

Earnings Per Share

(In Dollars)



1978 Earnings Reflect Change to LIFO Inventory Valuation Method.

More than 10 years ago, Gould established a plan for corporate development that has been instrumental in guiding our Company in its 16-fold sales growth from a small battery manufacturer to a major electrical/electronics firm with sales approaching $2 billion a year. This plan focused on the creative use of particular technologies by talented men and women. This combination of talent and technologies has resulted in the growth, improved margins and increased market shares which Gould has achieved in the expanding electrical/electronic and industrial markets it has chosen to serve. In 1978, the results of the original plan, and the human and technological resources it brought forth, were never more evident.

The most immediate and tangible evidence of success was the new sales and earnings records achieved in 1978. The Company earned $101 million on $1.87 billion in sales, an increase of 8.8 percent and 15.5 percent, respectively, over 1977. Earnings per share were $3.77 on an average 26.3 million common shares outstanding, compared to $3.69 per share for 24.1 million shares in the prior year. Fully diluted earnings per share were $3.56 versus $3.38 in 1977.

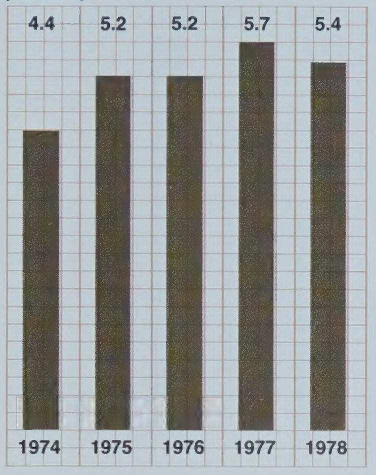
The decline in aftertax profit margins from 5.7 percent in 1977 to 5.4 percent in 1978 was principally the result of a change in the method of inventory valuation and an increase of 1.8 percentage points in the effective tax rate. After much analysis, Gould elected to change from its existing FIFO (first-in, first-out) method to the more conservative LIFO (last-in, first-out) method of inventory valuation. The LIFO method more fairly matches current costs with current revenues and is particularly effective from a management standpoint in the kind of inflationary economy we continue to experience. The long-term effect of this more conservative method will be an improvement in cash flow through a reduction in current income tax obligations. In 1978, reported earnings were reduced by $7.4 million, or $.29 per share as a result of this change.

Two financial events combined to reduce the amount of future dilution. Dilution on common shares decreased from 8.4 to 5.6 percent for the years ended December 31, 1977 and 1978, respectively. First, in August, all of the outstanding 5 percent Convertible Subordinated Debentures due in 1987 were called for redemption resulting in the conversion of 12,456 of the bonds into approximately 496,000 shares of Common Stock. In September, the quarterly dividend was raised from $.34 to $.40 per share, or an annual rate of $1.60 per share. Subsequent to this increase, which incidentally was the fifth such increase in the past 36 months, some 905,000 shares of the outstanding $1.35 Convertible Preferred Stock were converted into 882,000 shares of Common Stock.

In an important but unrelated transaction, the Company redeemed all of the outstanding $7.50 Cumulative Preferred Stock in April of 1978.

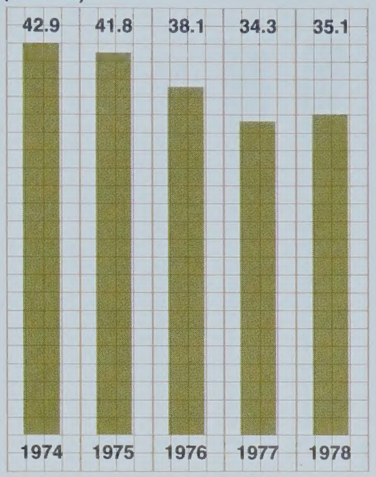
Net Earnings vs. Sales

(Percent)



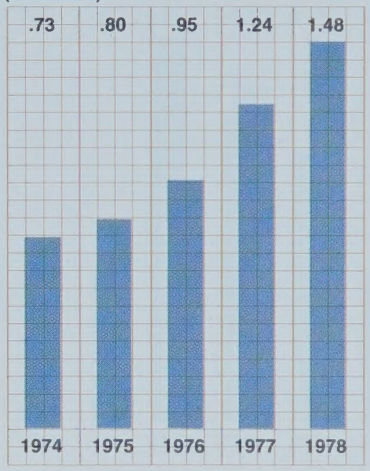
Total Debt vs. Capitalization

(Percent)



Dividends Per Share

(In Dollars)



(Current Annualized Rate $1.60)

Gould's credit rating is better than ever, evidenced by the fact that our bond ratings were upgraded to A by Standard & Poor's and our Commercial Paper rating to A1 by Moody's Investors Services, Inc. During 1978, we completed a $20 million offering of 9⅜ percent Senior Notes due in 1981 to reduce short-term debt and increased our available credit lines from $87.5 million to $132.5 million. As a result at year-end, your Company's debt to capitalization ratio, including capitalized leases, was 35.1 percent. Since year-end, we have concluded two debt offerings to finance future growth: $50 million 9¾ percent Guaranteed Notes due in 1985 and $75 million 9.9 percent Senior Notes due in 1999.

During 1978, and as of this date, we have acquired five companies and made minority investments in three others. Most notable were Hoffman Electronics, a producer of government electronic and navigation systems, and Bio-Mation, a producer of logic analyzers. In all cases, the acquisitions were an extension or broadening of current product lines. In addition, we completed in January of 1979 the 50-50 partnership of Gould-Brown Boveri to produce the high-voltage switchgear, circuit breakers and insulators, formerly made by our Electrical Systems Group. We consider Brown, Boveri & Company, Ltd. an outstanding worldwide company and one with which Gould is proud to be associated. This move provides both greater technology and international distribution. We also acquired the remaining 45 percent interest in Wellington, a 10,500 acre residential and commercial real estate development in Florida, which is today surpassing planned budgets and should provide substantial cash flow and profits to the Company over the next twelve years. We also sold eleven minor businesses or product lines, most of which were part of other acquisitions, either because they did not fit with Gould's business strategy or did not provide the long-term growth we require.

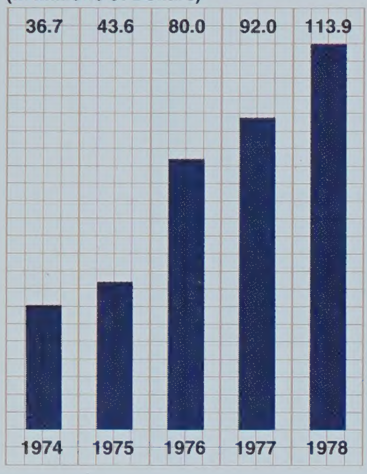
In its continuing efforts to develop new and improved products, the Company expended a record $79.7 million for research and development which represented 4.3 percent of total sales. There is not sufficient space in this report to comment upon all of the more than 100 new products which Gould brought to market in 1978. What is more important than their identity is the fact that new products introduced in the past five years contributed 26 percent in additional sales.

To sustain our research and development endeavors as well as the product development programs throughout Gould, a major expansion of the Rolling Meadows research facilities was begun in 1978. This expansion will provide an additional 80,090 square feet of laboratory and office space which will be fully available for use during the first half of 1979.

At the onset of 1978, Gould announced the most ambitious capital expenditures budget in its history. The authorization level of $148 million represented an 85 percent increase over the 1977 authorization. Actual expenditures during 1978 amounted to $106 million, with the balance representing expenditures in 1979 and 1980 to

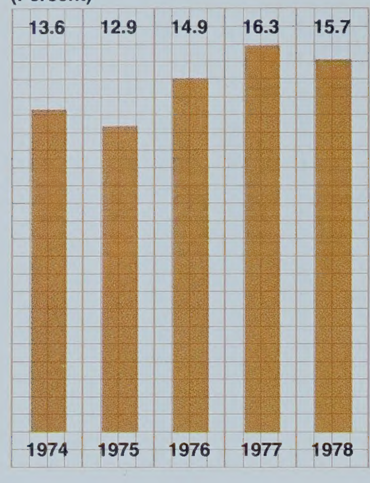
Export Sales

(In Millions of Dollars)



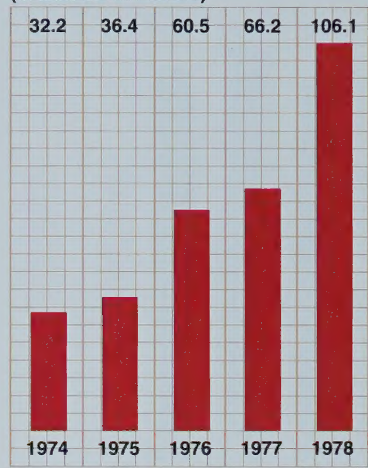
Return on Average Net Worth

(Percent)



Capital Expenditures

(In Millions of Dollars)



1978 Earnings Reflect Change to LIFO Inventory Valuation Method.

complete these projects. Significantly, nearly half of the authorized $148 million was dedicated to new products and capacity expansion, as opposed to equipment replacement and statutory requirements. In all, three new plants, 41 facility expansions, and a new research laboratory were started during 1978 expanding our production capacity by about 14 percent. For 1979, capital authorizations were approved at a level of $156.8 million and we expect actual expenditures to be $125 million.

Historically, Gould products have been components sold to other manufacturers for incorporation into sub-assemblies and finished goods or, as in the case of Gould-built batteries, have been made for sale under the private brands of mass merchandisers and others. Although there have been some recent exceptions such as our Champion™ Heavy-Duty truck battery, our Action Pack™ recreational batteries and our Activair™ hearing aid batteries, the Company has looked elsewhere to establish its reputation and image with the consuming and investing publics. During 1978, Gould, in an effort to obtain greater visibility, sponsored a Roger Penske Auto Racing Team. In a Company-wide contest, our car was named, appropriately, "The Gould Charge."

Over the years, Gould has made considerable use of special programs designed to achieve particular objectives and 1978 was no exception. The cost reduction program launched in 1973 has annually generated substantial savings, which in 1978 amounted to $52 million.

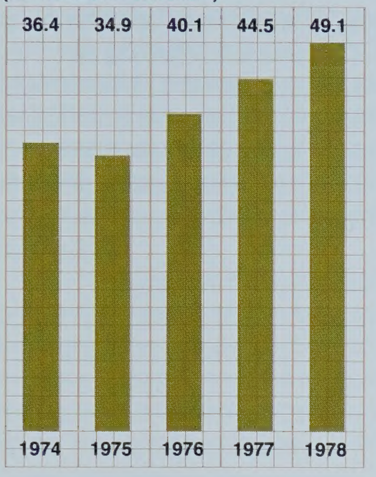
Three new directors were elected during the year, succeeding three who retired. John P. Schroeder, former Vice Chairman, J.P. Morgan & Co., Inc., and Louis H. Roddis, consulting engineer and former President of Consolidated Edison Company of New York, joined the Board in April. Roy D. Chapin, Jr., consultant and former Chairman of American Motors Corporation, was elected in September.

Retired from the Board were Robert G. Biesel, Robert V. Hansberger, and William G. Laffer, each of whom made major contributions to Gould during his tenure. Particular mention has to be made of the leadership and wise counsel of Bill Laffer, who served Clevite as its Chief Executive Officer and subsequently as Chairman of Gould from 1969 to 1972.

Senior management advancements during 1978 included the election of Charles M. Brennan, Managing Director, I-T-E, NV, to Vice President, South American Group; John N. Hanson, previously President and General Manager of the Electric Motor Division, to Vice President, Electrical Products Group; and David Simpson, formerly General Manager of the Instruments Division, to Vice President, Instruments and Controls Group. Gerald E. Schultz, Controller since 1974, was elected Vice President and Controller; and, in early 1979, Terrance J. Bruggeman, formerly Assistant Treasurer, was elected Treasurer. All five men also were appointed to serve on the Company's Operating Committee.

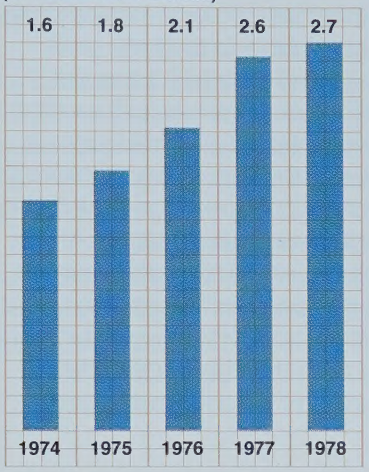
Sales Per Employee

(In Thousands of Dollars)



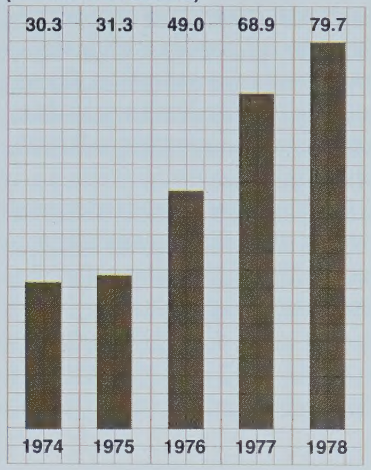
Earnings Per Employee

(In Thousands of Dollars)



R & D Expenditures

(In Millions of Dollars)



It was with a feeling of personal loss and yet considerable professional pride that we accepted the resignations of two of our senior executives in January 1979. John G. Breen and Charles S. Strauch moved to other fine companies, both with greater responsibilities.

Gould's outlook for the immediate future is positive and net earnings should continue to increase. However, the approximate 7 percent increase in shares will make it difficult to meet our general 15 percent earnings per share increase goal. Our incoming orders have been running at record levels and our backlog at year-end stood at $829 million which was above any previous peak.

By contrast, our Company like so many others is facing severe inflation which, at this writing, seems to be unabated and growing. If efforts by our Government to control deficits and to restrict the money supply are unsuccessful, then clearly the bright prospects which can be seen will fade away.

At the present time, however, we remain confident of 1979 and are doing all that we can to support anti-inflation efforts. In this connection, you may be interested in our response to President Carter's letter to the Chief Executive Officers of the Fortune 500 companies.

Our response was affirmative, but posed the question, "What alternative does American industry have but to assent?" The reply continued, "... it is apparent that a tremendous burden is being placed upon American people without evidence of compensating relief at the governmental level. The pace of growth in government and the proliferation of regulation continue unabated. The inflationary influence of government itself is ignored as it spends for ill-conceived transfer programs and then compounds the inflationary effect by raising the minimum wage and increasing Social Security taxes and benefits."

Our reply concluded that while committing Gould to good faith adherence to the wage and price standards, "We, and other Americans, expect our government to extend itself by exercising maximum fiscal restraint as its part in solving a common problem."

The outlook and potential for Gould to continue its growth as a dynamic and results-oriented electrical/electronics company rest largely upon our many talented people who keep your Company on the growing and leading edge of its chosen technologies. Not enough can be said in praise of our fine management who have provided, in our judgment, such outstanding leadership at all levels. To all of Gould's employees and to our stockholders, customers and suppliers, we wish to extend our appreciation for making 1978 a year to remember with pride and satisfaction.

Sincerely,

W.T. Ylvisaker
Chairman and Chief Executive Officer

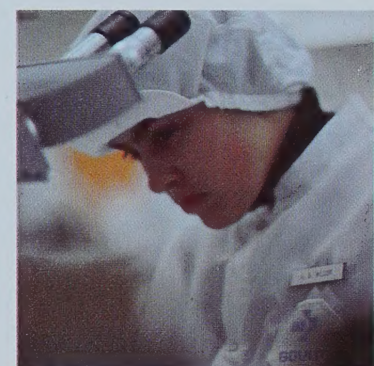
D.T. Carroll
President

Report on 1978 Operations

Operations in 1978 continued to emphasize new product introductions, the production of quality products, cost reduction, careful asset management, improved market share and most importantly, the development of promising men and women. During the year, approximately 100 significant new products were introduced which in turn strengthened Gould's presence in the marketplace.

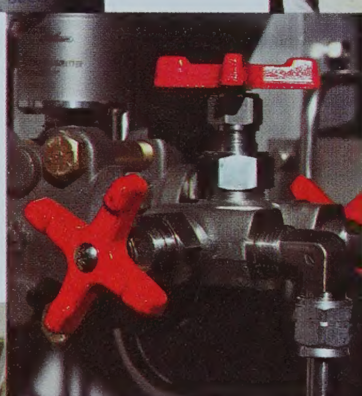
We continue to emphasize and monitor the major markets we serve. Of prime importance is our approximately 35 percent of sales in the replacement market, and 10 percent to the government. We consider both of these segments somewhat recession-proof from a sales and profit standpoint and therefore continue to emphasize their growth as a percent of total sales. Capital goods products, which we believe to be in a long-term growth cycle (10-15 years), represents 55 percent of our sales of which sales to the original equipment manufacturers were 20 percent. Strategically, we look forward to technological leadership and high market penetration for the products we manufacture. In most cases, we are the technical leader and where we are we see our market penetration follow rapidly. In the products where we achieve both, we command well above-average margins. Simply and fundamentally this is a brief summary of our corporate strategy.

As far as asset management is concerned, Gould's operating divisions were particularly effective in their control of receivables, payables and inventory. At December 31, 1977, the net of receivables plus inventory less payables represented 29.0 percent of calendar year sales, and by December 31, 1978, this percentage declined to 26.7 percent, an impressive improvement during a year in which sales increased by over 15 percent.



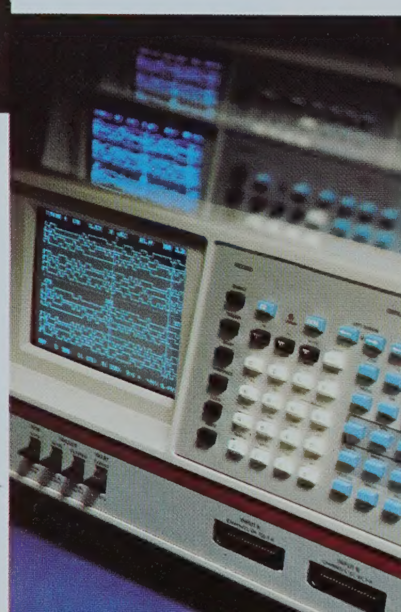
▲ Experimental microcircuits are designed, fabricated and tested in the extensive cleanroom facilities in the Gould Electrical/Electronic Research Laboratories

▲ The Gould Management Committee, from left to right, standing: Dr. Robert H. Pry, VP Research and Development; George P. Millington, Jr., Senior VP; Daniel T. Carroll, President; William C. Musham, Vice Chairman; seated, Dr. Eric W. Vetter, VP Human Resources; William T. Ylvisaker, Chairman and CEO; Edwin C. Parker, VP Finance.



◀ High precision valves and metal fittings made by Gould are essential components of instrumentation and process control systems used in modern, fully automatic manufacturing facilities.

◀ The Gould multichannel recorder is regarded as the top quality instrument in its field by researchers and manufacturing managers alike.



◀ Gould's Digital Logic Analyzer provides an instantaneous visual and numerical indication of the condition of the sophisticated circuits that have become basic to the new generation of computers.

Electrical/electronics products show increased growth in 1978

Gould's electrical/electronics business grew from 1977 sales of $1,137.8 million to 1978 sales of $1,411.3 million. Pretax earnings were $150.2 million in 1977 and grew by 15 percent to $172.6 million in 1978. Of the sales increase, approximately $50 million were traceable to the Hoffman Electronics and Bio-Mation acquisitions which took place in early 1978.

Electronic Products. Gould's foil business continued to grow in sales and in net earnings as it has in past years. From all the evidence available, Gould seems to have improved upon its leading share of the market for electro-deposited copper foil. During the year, three new foils were introduced: a five micron foil and a nine micron foil using an aluminum carrier and a 12 micron foil without a carrier.

As a further commitment to the copper foil business, the Company broke ground on a new foil plant in Chandler, Arizona, which should begin production in the first half of 1979. This particular plant will produce products for the West Coast and the Far East.

Gould's instrument businesses were particularly strong during the year, experiencing better than an 18 percent increase in sales and an even greater percentage improvement in pretax earnings. Particularly prominent in this increase was the growing acceptance of Gould's line of programmable controllers by major manufacturing companies for in-plant and process control applications. Additionally, Gould's line of memory oscilloscopes was buoyed by the introduction of several new products employing digital capabilities as opposed to the traditional analog functions. Perhaps the most dramatic new instrument product introduced during 1978 was the K-100 Logic Analyzer. Rarely has a single product received the kind of immediate acceptance which this one received at WESCON, an annual electronics trade show held on the West Coast. Not only has it achieved a position of market dominance in its

▲ **Gould manufactures nearly all high-voltage, heavy-duty components that make up the thousands of switching stations which control and distribute the electrical energy moving through the nation's high power grid.**

particular niche, but it has permitted the Company to drop three other logic analyzer products which had previously been thought to be crucial to having a full line. Thus, not only have sales and earnings improved through the introduction of this new product, but the investment in inventory has been reduced.

Of all the areas of Gould's business, the instruments business is the one most committed to the introduction of new products and, indeed, is the one in which new products have had the most singular impact on sales and earnings. During 1978, expenditures for research and development increased by more than 35 percent over the prior year. This rate of increase will most likely continue in future years and is amply justified by the profit margins which are the direct result of the investment.

In the defense electronics business, Gould had a highly successful year in 1978. Sales and earnings were up handsomely over the prior year, partly as a result of the previously mentioned Hoffman acquisition, and also the continuing success of sales to the Department of Defense.

The Mark 48 torpedo program continued to receive favorable comments from the U.S. Navy. Gould has been producing this heavy anti-submarine weapon since 1971 and is currently working on its sixth production order which is scheduled to run through 1981. However, to hedge against an eventual reduction of Mark 48 production, Gould has sought out various foreign sales opportunities during 1978 and received orders from the Royal Australian Navy and from the Dutch Government. In addition, the Company has teamed with Hughes Aircraft in a bid for the development contract for an Advanced Lightweight Torpedo and is teamed with Boeing in a proposal to become the Navy's contractor for the Anti-submarine Standoff Weapon.

◀ **Over 38,000 employees make up the invaluable human resource that has been vital to the Corporation's record of success.**

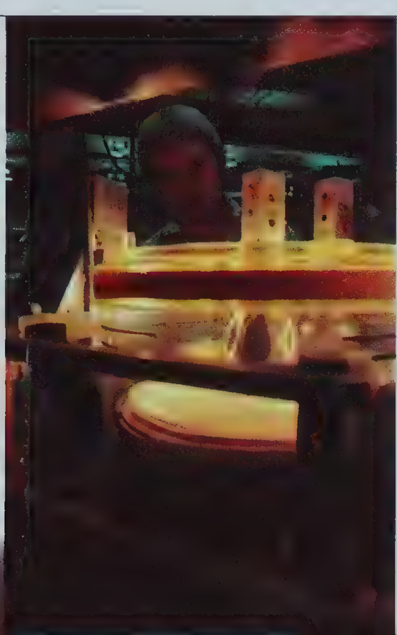
▲ **Each Gould molded-case circuit breaker is tested under electrical stress many times that encountered in its eventual installation in a factory or commercial building. Absolute reliability is assured, protecting valuable equipment from an unexpected overload, even after many years of quiescent conditions.**

◀ **Complex automated processes, especially those encountered in the chemical industry, are automatically regulated by the preprogrammed electronic control systems designed and installed by Gould.**

Elsewhere in the defense electronics business, Gould received in August of 1978 a contract for 41 TB-16 Towed Arrays. This sonar device which is towed by submarines to detect other surface and underseas vessels follows on an earlier order for 42 units which Gould successfully completed in prior years. In November, Gould received a contract to design and build an engineering systems trainer for a patrol gun boat. This latter contract was the most recent of a number of simulation and training contracts which Gould has secured in recent months. It is evident that the market for training is a growing one and one in which Gould is becoming well established.

Electrical Products. In the high-voltage area of Gould's business, the most notable event of the year was the decision to form a 50-50 partnership with Brown, Boveri & Company, Ltd. to operate the business of Gould's Electrical Systems Group in the United States and Canada. Brown Boveri, headquartered in Switzerland, has long been recognized as a world leader in electric power engineering and equipment manufacturing and brings to the partnership unique technology and worldwide market acceptance. The partnership will be managed by a board of eight executives. Brown Boveri is to contribute $55 million. Gould will contribute an equal amount of the physical assets of the Electrical Systems Group. The partnership formally commenced operations in the United States on February 1, 1979, with the Canadian portion to proceed as soon as Canadian Government approval is obtained. Both Gould and Brown Boveri see opportunities for the joint venture to expand not only in the United States and Canada but in international markets where U.S. technology and U.S. financing are critical considerations.

Quite apart from the events surrounding the joint venture, the high-voltage electrical business of Gould had only a passable year in terms of sales and earnings. The electric utility market continued to be soft, and industrial and commercial demand was insufficient to make up for the shortfall.



The Gould "Bell Cell", made for the Western Electric Company as a standby electrical source for the Bell System, uses a high power laser welding system to fabricate the oversize plates in this unique industrial battery.

The zinc-bromine cell is currently being tested in the Gould Energy Research Laboratory to determine its commercial potential as a more efficient secondary source of electrical energy.

Gould is one of the world's largest producers of ultra thin, metallic foils that are now required to fabricate the newer high density electronic circuitry.

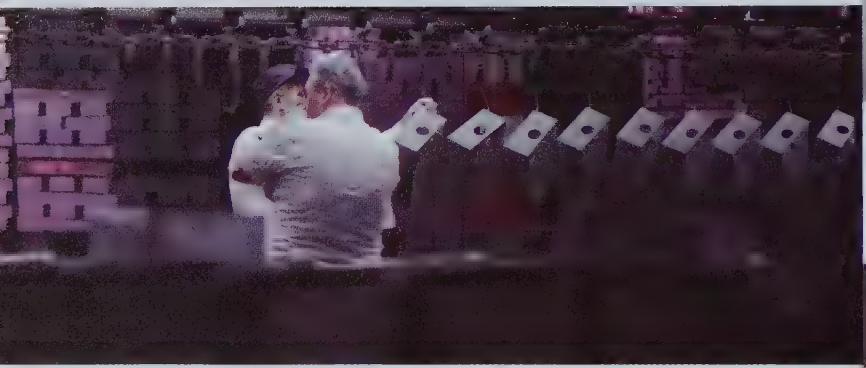
The Gould Champion™ Maintenance Free Battery for trucks and off-the-road vehicles has saved fleet owners many hundreds of man-hours usually required for maintaining conventional lead-acid batteries, especially on remote construction sites.

In 1978, the Company announced plans for three plants in South Carolina to manufacture and assemble air magnetic circuit breakers which should become fully operational during 1979.

The medium- and low-voltage electrical products for the residential and commercial markets enjoyed a 16 percent improvement in sales over the prior year. This improvement, which was accompanied by an even greater improvement in profitability, was due to a number of factors, particularly the reorganization of the business and introduction of a number of able new managers into key positions. Additionally, considerable effort was devoted to installing improved financial and manufacturing systems which enabled us to obtain better control of costs, to improve customer service levels and to operate without undue increases in working capital. Also important to the success of this area of Gould's business were the introduction of new products such as a low cost residential circuit breaker, called the EQ breaker; a Fault-Trap™ fuse; and a 25KV substation designed for the Canadian market. Still another product which deserves mention is the swimming pool version of the E-plus™ electric motor. This motor was originally designed to achieve energy efficiency in manufacturing applications and was redesigned in 1978 for application to the swimming pool pump motor market. The market acceptance has been most gratifying.

The battery portion of Gould's electrical business had another exceptional year in 1978. Sales increased by about 19 percent despite some continued softness in the industrial battery portion of this business. The Gould Maintenance Free battery, which was first introduced in 1974, gained even greater acceptance during 1978. Part of Gould's success was due to the growing reputation which the Company has established as a reliable manufacturer of quality products, and part was due to

◀ Drawing on its own research facilities as well as the products of its many divisions, Gould has been able to perfect and deliver complex electronic systems to every branch of the Defense Department.



▲ Because Gould has perfected many of its own manufacturing techniques, most of its factories are vertically integrated to take advantage of the efficiencies created by these proprietary technologies.

the introduction of a second generation of the Maintenance Free battery. In prior years, the Maintenance Free battery was available in only "top of the line" models. In 1978 a lower cost version, the Calcium Plus™ battery, was introduced with rather striking results.

During the year, OSHA and EPA announced quite stringent lead standards for manufacturing facilities. While all the implications of the new standards are not conclusively known, Gould is of the opinion that its past efforts at controlling blood lead levels among its employees and the amount of lead in the ambient air have placed our facilities in a better position than those of the competition. The Company does expect that it will have to improve certain of its facilities but feels the impact will be manageable within the context of present and projected capital expenditures. In this connection, Gould provided capital expenditures during the year to increase the manufacture of Maintenance Free batteries at all eleven U.S. plants and a French plant in which the Company has a majority interest. It was announced during 1978 that Gould intends to construct a Maintenance Free battery plant in Illinois, the construction of which will not commence until late in 1979.

During the year Gould introduced several new batteries, one of which is the "Super Crank™", the most powerful boat battery of its size for inboard and outboard motors. Another is a trouble-free battery and charger system for industrial trucks named "Hands Off' which provides approximately a 30 percent reduction in operating costs for electric-powered material handling equipment.

The zinc-air button cell, Activair™, which was successfully introduced in 1977 for hearing aids, was awarded a prestigious IR-100 award as one of the top 100 technological developments of the year. Button cell sales continued to improve during the year and a companion line of zinc-air cells was marketed for use in liquid crystal watches and calculators.

A greatly expanded line of sophisticated electronic test instrumentation is now manufactured and marketed by Gould both in the U.S. and abroad.

Managers at all levels and in many disciplines are given the opportunity to improve their skills at Gould's unique Management Education Center which includes living facilities as well as classrooms equipped with extensive audio-visual equipment.

Ongoing work in the Gould Laboratories has built up a resource on which the product development activities within each operating unit can draw when confronted with application problems concerning basic materials and their composites.

The design of the Gould sterile, disposable transducer dome enables the blood pressure and pulse of a critically ill patient to be continuously monitored without fear of infection or exposure to electrical hazards.

New Industrial Products Expand Market Opportunities For Gould

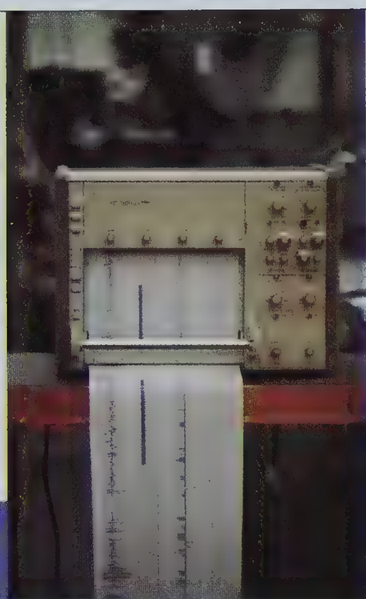
Gould's industrial products, both for OEM and replacement markets continued to perform well in 1978, after exceptional performance in 1977. Sales in the year were $439.9 million compared to $396.1 million in 1977. Pretax earnings reached $73.5 million in contrast to $76.8 million in 1977.

New products introduced in 1978 included a redesigned tin-plated Gould "66" bearing for the automotive replacement market, high strength wear plates for hydrostatic pump applications, light duty torque rods which meet intermediate duty suspension needs, and corrosion resistant powdered titanium components for the chemical, aerospace and medical markets. All of the foregoing are products which received market acceptance in terms of sales. More important, they reaffirmed Gould's position as the technological leader in these particular markets.

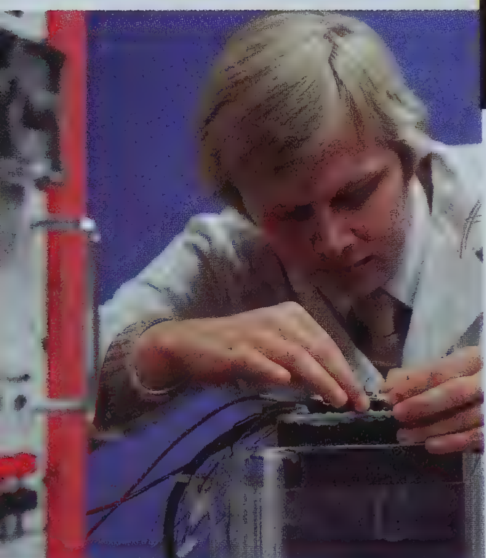
Gould's position in the hydraulic control field continued to improve during 1978. In fact, orders for valves and fittings were so strong during most of 1978 that promotional advertising was curtailed in order to avoid excessive backordering.

During the year, a number of major capital investments were made. The powder metal plant at Salem, Indiana was augmented by a 20,000 square foot addition, and the elastomer products plant in Napoleon, Ohio was expanded by 39,000 square feet. During the year, ground was broken for a new engine bearing plant in Atlantic, Iowa; this 115,000 square foot facility will be operational in 1979. Finally, the St. Louis foundry was expanded to accommodate finishing operations which were moved from Lexington, Tennessee. This move, in turn, permitted an increase in electric motor and generator production at the Lexington plant.

International activities played a significant role in the industrial products sector. A joint venture utilizing powder metal technology in Brazil came on stream and shows promise of being a highly successful entry into the rapidly expanding



Many of Gould's single and multichannel recorders are now available with a unique alphanumeric event marker developed out of Gould's electrostatically controlled ink-jet technology.



The Gould nickel-zinc recreational power source may be completely discharged many times, yet will provide four times more power per charge than a conventional auto battery when used for fishing motors, recreational and marine lighting, and garden equipment.

Brazilian market. Gould's 46 percent participation in I-T-E, NV showed good results in 1978. The divestiture of four marginal product lines was completed, and better market and profit performance was achieved in the remaining businesses.

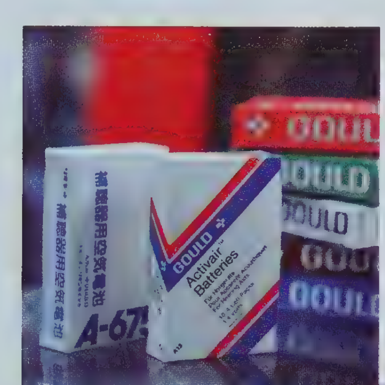
Gould's strategy for the industrial products business has been to emphasize growth markets and particularly those which lend themselves to technological innovation. Gould, in 1978, pursued this strategy successfully and gave increasing emphasis to the replacement and heavy-duty market, both of which offer above-average growth and profitability.

New Products and Processes Emerge From Gould's Proprietary Technologies

For several years, Gould has operated a New Business Group into which have been placed those product lines that are judged to be mature enough to exist outside of the laboratory environment and yet not robust enough to justify full division status. As these products and product lines progress they are reviewed to determine when and whether they should be moved out as fully functioning operations of Gould. Some obviously never reach this level of maturity, while others thrive and quickly become important parts of the Gould product line. In 1978, Gould had five programs under development in the New Business Group.

In 1978, Gould announced a tripartite agreement with the Department of Energy's Argonne National Laboratory and the Electric Power Research Institute for the development of a zinc-bromine battery. The long-term target is mass production of free-standing, 400 kilowatt hour batteries which will operate unattended for electric energy storage. If successful, these "load-leveling batteries" will

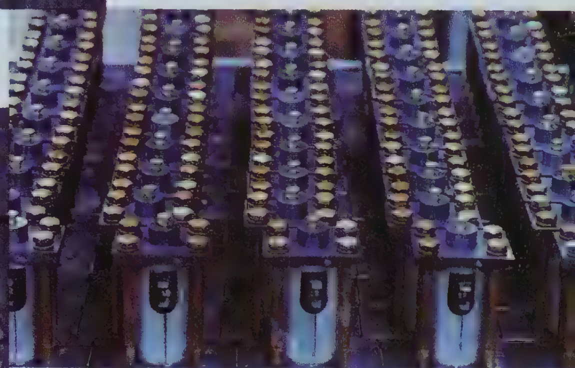
A completed control block will translate electrical signals into hydraulic activation, precisely controlling ponderous moving parts found in construction equipment and heavy manufacturing.



The Gould Activair® cell is now being marketed throughout the world for use in hand-held calculators, digital watches and hearing aids.

Gould's expertise in the transmission and control of high-voltage was responsible for the design of a gas-insulated system that can reduce the space needed for a utility switching station by as much as ninety percent.

Development continues on the zinc-air concept to create button cells for additional commercial applications where a reliable, continuous source of low-voltage is required in a minimum of space.



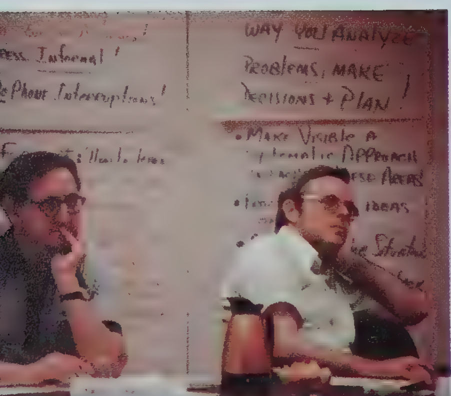
Gould hydraulic valves act like switches, instantly controlling high pressure streams of fluid in complex vehicular and fabrication systems.

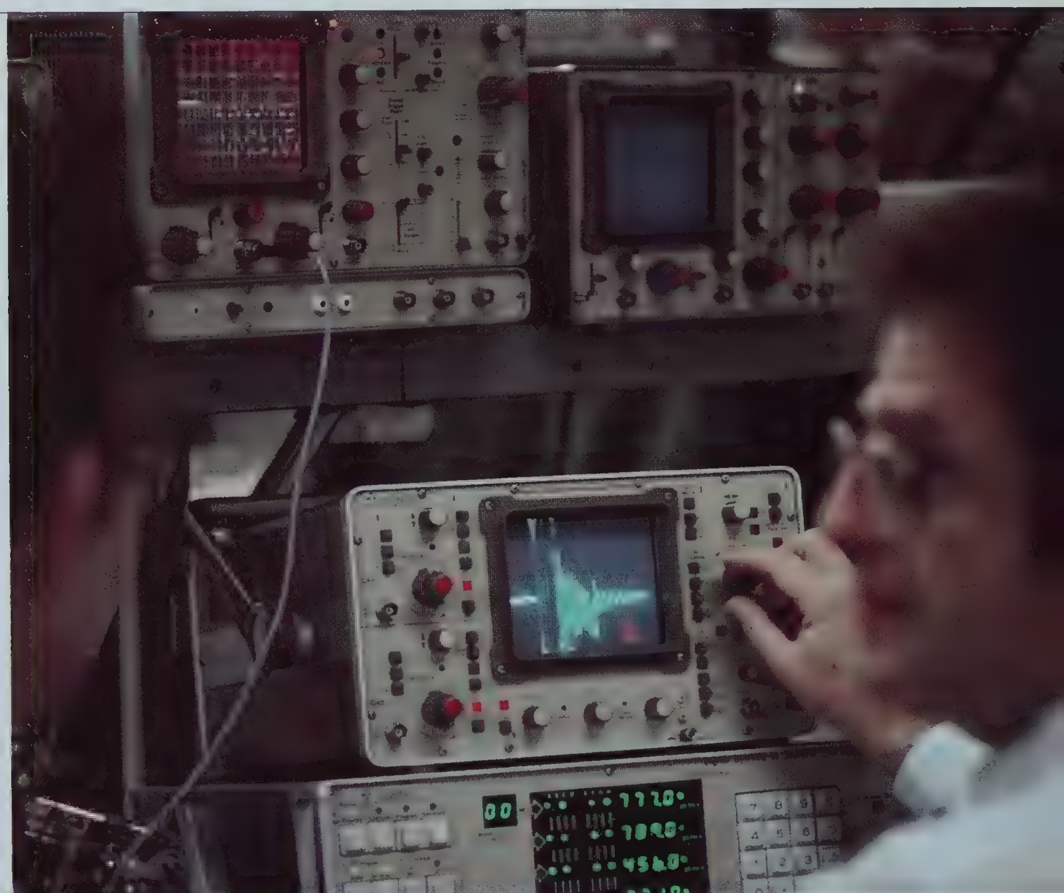
provide electric utilities with the capability of storing electrical energy during off-peak hours, typically late at night and on weekends, for recapture and use during peak load periods. The zinc-bromine technology appears to be leading in the race to be the first successful load-leveling battery.

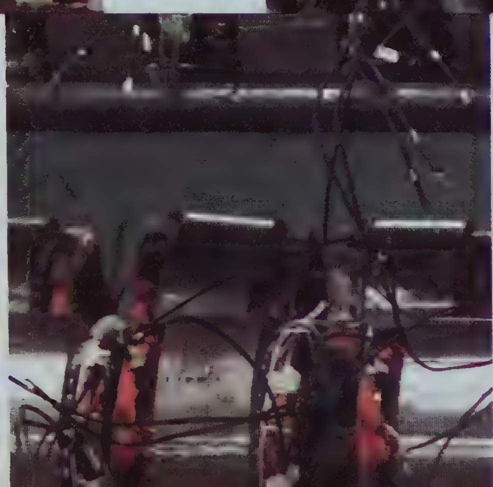
The common goal of the other two battery programs is to perfect a propulsion source and system which will make electric vehicles practicable, desirable and competitive with gasoline engine-powered "second" cars and urban delivery and service vans.

Government and industry studies indicate that more than 75 percent of all family "second" cars in the U.S. are driven less than 100 miles per day. Stimulated by the escalating price of oil and the concurrent objection to vehicular air pollution, Congress passed the "Electric and Hybrid Vehicle Research, Development and Demonstration Act of 1976." This legislation provided funding for the kinds of battery-powered mobility that Gould and some other companies have been investigating for several years.

In 1978, a second generation electric vehicle was introduced by Gould. This vehicle combines a 2,200-pound battery pack with a converted Ford E250 van in both passenger and delivery models. The vans have a top speed of 60 m.p.h., maintainable for five minutes, and a cruise speed of 50-55 m.p.h. Acceleration time from 0 to 30 m.p.h. is 12 seconds. The travel range is 40 miles of urban driving. The battery pack, an improved and more powerful version of Gould's golf cart model, is completely rechargeable from an 80 percent "deep" discharge in less than 10 hours. While these performance capabilities exceed the Department of Energy's minimum standards for participation in the







▲ Part of the Gould management development program consists of study teams pooling their diverse talents to solve practical operational problems.

◄ The Gould E-plus™ energy efficient design of fractional and multiple-horsepower electric motors offers a savings of up to ten percent over conventional motors when used in a typical manufacturing environment.

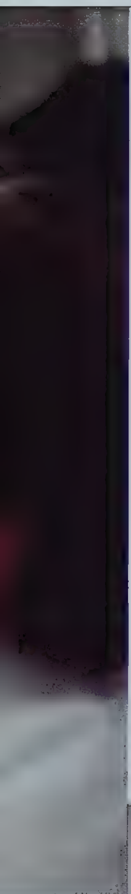
▲ As electronic equipment becomes more miniaturized and complex, so do the facilities and skills to maintain it. Gould digital storage scopes and analyzers are in the leading edge of today's test equipment design.

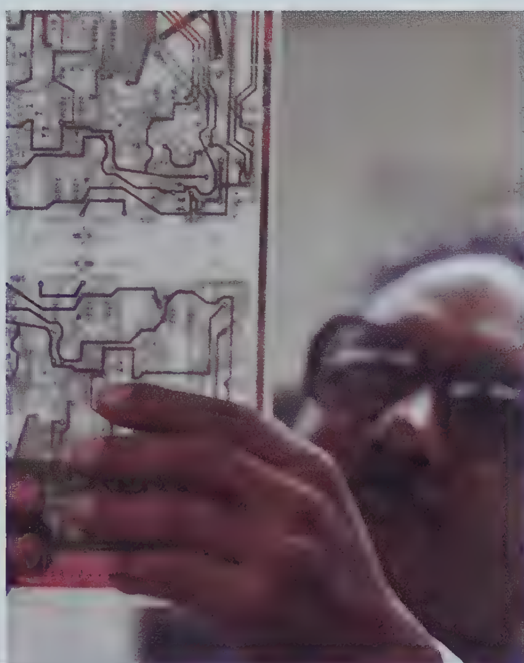
Federal research program, the lead-acid battery currently being used is at, or near, its technological limits. Anticipating this limitation, Gould has been intensifying its development of what may be the next practical technological threshold, the nickel-zinc battery combination.

In May, the Argonne National Laboratory awarded Gould a $5.7 million contract for the research, development, and demonstration of a nickel-zinc battery. Nickel-zinc will now almost triple the energy density of lead-acid batteries which, in the case of a conventional vehicle, would increase the driving range between recharges from 50 to 100 or more miles. Field testing is scheduled to start in 1979. Nickel-zinc battery-powered vehicles are expected to be available for purchase in the early 1980s under the Department of Energy's demonstration program which is aimed at placing 10,000 electric vehicles on our nation's roads by 1986.

Meanwhile, another chemical couple is being investigated, also primarily for an electric vehicle battery. In 1978, Gould received another contract from the Argonne Laboratory for the development, construction, and testing of a prototype 50 kilowatt hour capacity lithium-iron sulfide battery—the "Mark II." The $2.8 million program cost will be shared by Gould and the Department of Energy.

Finally, the New Business Group was expanded during 1978 to encompass the educational systems product line of Hoffman Electronics which was purchased in 1978. This includes various hardware and software systems designed to improve reading and learning skills of primary and secondary school students. During the year, several new products were introduced, the most prominent of which were 100 bilingual Career Awareness film-strips and SCAN I, a major new reading improvement program. Both products have received excellent acceptance.





◄ The successful development, design and fabrication of electronic devices is one of the basic strengths of Gould's new product program. At every step, from basic research through final testing and installation, employees attempt to create a better way to make a better product.

▲ Gould's broad lines of hose, couplings, valves, fittings and cylinders become the nerves and tendons of giant earth moving vehicles, precisely controlling all the movements at a touch of a button by the operator in the cab.

◄ Gould's marketing forces have quickly recognized the needs of their customers and feed this information back to their own product development facility, inspiring the stream of new products that have formed the basis of Gould's success.

◄ A totally reliable backup power source is the backbone of every communications and power utility system. Banks of Gould industrial batteries are kept at the ready in case they must supply energy power to generating station control circuitry and telephone switching systems.

Gould's Business Segments

Gould operates in four industries—electrical, electronics, battery, and industrial. Operations are conducted in North America, Europe, South America and Australia.

Electrical Products These products include electric motors, alternating current generators, power circuit breakers, disconnecting switches, porcelain insulators, medium power transformers, substations, climatized power distribution centers, electrical distribution equipment, industrial control equipment and other products used in the construction industry.

Electronic Products These products include direct-writing recording instruments, oscilloscopes, transducers, electronic testing and measuring equipment, programmable controllers and other precision measuring equipment. The Company is the prime contractor for the MK48 torpedo and produces training devices, simulators, marine instruments and passive sonar systems for the armed services. In addition, Gould is a producer of electrolytic copper foil used in the manufacture of printed circuits.

Battery Products These products include batteries manufactured for automobiles, trucks, farm equipment and a wide variety of industrial uses, sealed nickel-cadmium rechargeable batteries for use as a portable power source and zinc-air cells for hearing aids, calculators, watches and other applications. Gould also supplies a large portion of the battery cases, lead and lead oxide used in its own operations.

Industrial Products These products include custom engineered bearings, bushings and mechanical seals, rubber-metal elastomer products, brake drums and discs, precision engine parts, powder metal structural parts and numerous components to convey fluids and to connect and control pneumatic, hydraulic and other fluid systems.

Operations in Different Industries

Year Ended December 31 (in millions of dollars)	Net Sales					Pretax Earnings				
	1978	1977	1976	1975	1974	1978(3)	1977(2)	1976(2)	1975	1974
Electrical Products	$ 606.8	$ 549.5	$ 378.5	$ 73.1	$ 97.2	$ 49.9	$ 59.1	$ 43.5	$ 0.8	$ 7.9
Electronic Products	413.1	258.2	200.1	209.9	200.2	70.0	49.2	31.4	28.3	32.8
Battery Products	391.4	330.1	251.3	205.2	234.9	52.7	41.9	40.9	27.4	26.6
Industrial Products	439.9	396.1	326.7	208.8	194.6	73.5	76.8	62.8	52.2	35.4
Industry Totals	1,851.2	1,533.9	1,156.6	697.0	726.9	246.1	227.0	178.6	108.7	102.7
General Corporate(1)	18.7	85.7	68.8	38.8	67.5	(37.0)	(38.5)	(44.2)	(28.1)	(22.8)
Interest Expense						(33.9)	(32.5)	(31.8)	(19.8)	(18.0)
Consolidated Totals	$1,869.9	$1,619.6	$1,225.4	$735.8	$794.4	$175.2	$156.0	$102.6	$ 60.8	$ 61.9

Operations in Different Geographic Areas

Year Ended December 31 (in millions of dollars)	Net Sales					Pretax Earnings				
	1978	1977	1976	1975	1974	1978(3)	1977(2)	1976(2)	1975	1974
United States	$1,642.7	$1,351.5	$ 994.8	$596.5	$654.0	$212.6	$202.4	$159.7	$ 99.1	$ 90.9
Foreign Locations	208.5	182.4	161.8	100.5	72.9	33.5	24.6	18.9	9.6	11.8
Industry Totals	$1,851.2	$1,533.9	$1,156.6	$697.0	$726.9	$246.1	$227.0	$178.6	$108.7	$102.7

Operations in Different Industries

Year Ended December 31 (in millions of dollars)	Identifiable Assets		Capital Expenditures		Depreciation and Amortization	
	1978	1977(2)	1978	1977	1978	1977(2)
Electrical Products	$ 391.9	$ 356.9	$ 20.2	$ 18.8	$13.2	$12.8
Electronic Products	286.1	200.7	36.5	11.2	10.2	6.3
Battery Products	232.8	203.7	22.3	13.6	9.9	8.4
Industrial Products	310.6	279.7	22.5	11.8	9.7	9.0
Industry Totals	1,221.4	1,041.0	101.5	55.4	43.0	36.5
General Corporate(1)	199.6	184.8	4.6	10.8	3.2	4.8
Consolidated Totals	$1,421.0	$1,225.8	$106.1	$ 66.2	$46.2	$41.3

Operations in Different Geographic Areas

Year Ended December 31 (in millions of dollars)	Identifiable Assets	
	1978	1977(2)
United States	$1,080.7	$ 904.7
Foreign Locations	140.7	136.3
Industry Totals	$1,221.4	$1,041.0

(1) General corporate assets consist primarily of cash, marketable securities, prepaid insurance, investments, and property, plant and equipment related to corporate activities. Net sales, pretax profits and identifiable assets of divested operations are also included in the general corporate amounts. (2) Yearly financial data for 1977 and 1976 has been restated to reflect the change in method of accounting for certain leases entered into prior to January 1, 1977 (See Note J). (3) The effect of the Company's adoption of the LIFO method (See Notes A and D) on the pretax earnings by segment is as follows (in millions of dollars): Electrical Products—$4.9; Electronic Products—$.1; Battery Products—$3.4; and Industrial Products—$4.5. (4) Export sales from the United States were $113.9 million and $92.0 million for the years ended December 31, 1978 and 1977, respectively.

Comparison of Financial Information

1978 Compared to 1977

Revenues and Net Earnings:

Net sales increased 15 percent. Major contributors to this increase were instrumentation products, industrial products, copper foil, sealed calcium-lead batteries, powder metal products and government products, including MK48 torpedoes. Equity in earnings of unconsolidated subsidiaries and affiliated companies increased 97 percent due to the increase in net earnings of Gould Financial Inc. and the improvement in operations of the Company's foreign affiliates. Net earnings increased 9 percent, primarily due to increased sales and the increase of equity in earnings of unconsolidated subsidiaries and affiliated companies. The net earnings increase was partially offset by the change to the LIFO method of inventory valuation which reduced net earnings by $7,441,000, for the year ended December 31, 1978.

Costs and Expenses:

Cost of products sold increased 16 percent primarily due to the increased sales volume and the change to the LIFO method of inventory valuation. Payroll taxes increased 20 percent due to an increase in salaries and wages and an increase in the FICA rates. Depreciation and amortization of plant and equipment increased 13 percent as the result of the Company's expanded capital expenditures program. Rent expense increased 28 percent due to an increase in rental rates and an increase in equipment leased under operating lease arrangements. Research and development expense increased 22 percent as the result of the expanded program announced in the previous year. Income tax expense increased 17 percent as the result of an increase in pretax income and an increase in the effective income tax rate. The increase in the effective tax rate is due to a decrease in the benefits attributed to the Company's Domestic International Sales Corporations and an increase in the effect of foreign income taxes. Investment tax credits increased as the result of the capital expenditures program.

1977 Compared to 1976

Revenues and Net Earnings:

Gould's net sales and earnings increased 32 percent and 46 percent, respectively, over the prior year. Aftertax profit margins increased from 5.2 percent to 5.7 percent. Compared to the pro forma results of operations for the prior year, which assume that I-T-E Imperial Corporation ("I-T-E") was acquired January 1, 1976, net sales and earnings increased 17 percent and 42 percent, respectively. The 17 percent increase in net sales was the result of an increase in demand for electrical equipment for industrial and commercial applications, growing demand for Gould batteries, and excellent market acceptance of new products. The 42 percent increase in net earnings resulted from the increase in sales volume and cost reductions.

Costs and Expenses:

Cost of products sold increased 30 percent over the prior year. This increase is due primarily to the increased sales volume and the inclusion of I-T-E for the entire year. Maintenance and repairs, depreciation, payroll taxes, rent, and advertising costs increased 62 percent, 26 percent, 40 percent, 25 percent and 47 percent, respectively. These increases are due primarily to the inclusion of I-T-E for the entire year. Research and development costs increased 38 percent due to the inclusion of I-T-E and increased expenditures for developing new products and processes. Income taxes increased 67 percent over the prior year. The majority of this increase is the result of a 52 percent increase in pretax earnings. The remainder is due to decreases in investment tax credits and the tax benefits related to the earnings of Gould's Domestic International Sales Corporations and an increase in state and local taxes.

Ten Year Financial Summary

For the year ended December 31		1978	1977 Restated
Summary of Operations: (in millions of dollars)	Net Sales	$1,869.9	$1,619.6
	Increase (Decrease) in Sales	15.5%	32.2%
	Cost of Products Sold—See note below	$1,304.6	$1,125.4
	Interest Expense	$ 33.9	$ 32.5
	Pretax Earnings	$ 175.2	$ 156.0
	Pretax Earnings as a % of Sales	9.4%	9.6%
	Income Taxes—See note below	$ 74.2	$ 63.2
	Effective Income Tax Rate	42.3%	40.5%
	Cumulative effect of a change in accounting principle	—	—
	Net Earnings—See note below	$ 101.0	$ 92.8
	Net Earnings as a % of Sales	5.4%	5.7%
	Increase (Decrease) in Net Earnings	8.8%	46.5%
	Dividends on Preferred Stock	$ 2.1	$ 4.1
	Earnings Applicable to Common Stock	$ 98.9	$ 88.8
	Earnings Retained for Use in the Business (annual increment)	$ 59.6	$ 59.3
	Dividends as a % of Earnings Applicable to Common Stock	39.6%	33.2%
	Depreciation and Amortization of Plant and Equipment	$ 45.0	$ 39.7
	Cash Flow From Operations	$ 144.7	$ 134.9
	Capital Expenditures	$ 106.1	$ 66.2
Capital Structure Statistics: (in millions of dollars)	Working Capital	$ 385.4	$ 366.8
	Working Capital as a % of Sales	20.6%	22.7%
	Current Ratio	206.7%	230.9%
	Total Assets	$1,421.0	$1,225.8
	Return on Average Total Assets	7.6%	7.7%
	Long-Term Debt	$ 300.8	$ 285.0
	Long-Term Debt as a % of Total Invested Capital	30.5%	31.9%
	Total Debt	$ 369.9	$ 317.1
	Total Debt as a % of Total Invested Capital plus Short-Term Debt	35.1%	34.3%
	Total Invested Capital— Long-Term Debt Plus Stockholders' Equity	$ 986.3	$ 893.5
	Return on Average Invested Capital	10.9%	10.7%
	Return on Average Stockholders' Equity	15.7%	16.3%
Common Share Statistics: (dollars per share)	Earnings Per Share	$ 3.77	$ 3.69
	Earnings Per Share—Assuming Full Dilution	$ 3.56	$ 3.38
	Dividends Per Share	$ 1.48	$ 1.24
	Book Value Per Share	$ 24.67	$ 23.27
	Average Number of Common Shares Outstanding (in thousands)	26,256	24,071
	Common Shares Outstanding (in thousands)	27,435	24,360
Miscellaneous Statistics:	Number of Employees	38,922	37,127
	Number of Stockholders	30,437	25,462
	Sales Per Employee	$ 49,067	$ 44,489
	Earnings Per Employee	$ 2,651	$ 2,550
	Total Assets per Employee	$ 36,508	$ 33,017

Note to Ten Year Financial Summary:

As of January 1, 1978, the Company changed its method of determining inventory cost from the FIFO (first-in, first-out) method to the LIFO (last-in, first-out) method, as described more fully in Notes A and D of the notes to consolidated financial statements.

1976 Restated	1975	1974	1973	1972	1971	1970	1969	1968
$1,225.4	$ 735.8	$ 794.4	$ 696.7	$ 539.4	$ 410.6	$ 406.4	$ 391.0	$ 370.8
66.5%	(7.4%)	14.0%	29.2%	31.4%	1.0%	3.9%	5.5%	14.5%
$ 867.7	$ 550.7	$ 594.1	$ 529.6	$ 411.6	$ 314.0	$ 305.8	$ 301.2	$ 285.6
$ 31.8	$ 19.8	$ 18.0	$ 14.0	$ 8.6	$ 7.4	$ 7.5	$ 5.7	$ 3.7
$ 102.6	$ 60.8	$ 61.9	$ 48.7	$ 36.2	$ 29.7	$ 30.6	$ 31.2	$ 27.5
8.4%	8.3%	7.8%	7.0%	6.7%	7.2%	7.5%	8.0%	7.4%
$ 37.9	$ 22.5	$ 27.1	$ 22.1	$ 14.8	$ 12.5	$ 14.4	$ 14.9	$ 13.6
36.9%	37.0%	43.8%	45.5%	40.9%	42.1%	47.1%	47.8%	49.5%
$ 1.3	—	—	—	—	—	—	—	—
$ 63.4	$ 38.3	$ 34.8	$ 26.6	$ 21.4	$ 17.2	$ 16.2	$ 16.3	$ 13.9
5.2%	5.2%	4.4%	3.8%	4.0%	4.2%	4.0%	4.2%	3.8%
65.6%	10.1%	30.8%	24.3%	24.4%	6.2%	(0.6%)	17.3%	17.8%
$ 4.1	$ 4.1	$ 2.8	—	—	—	—	—	—
$ 59.3	$ 34.2	$ 32.0	$ 26.6	$ 21.4	$ 17.2	$ 16.2	$ 16.3	$ 13.9
$ 40.3	$ 23.7	$ 22.7	$ 18.3	$ 13.7	$ 9.9	$ 9.8	$ 9.6	$ 7.0
32.0%	30.6%	29.1%	31.2%	36.0%	42.4%	39.5%	41.1%	49.6%
$ 31.6	$ 18.9	$ 15.7	$ 14.4	$ 12.8	$ 11.0	$ 9.7	$ 9.5	$ 9.7
$ 107.4	$ 63.0	$ 50.1	$ 43.3	$ 37.2	$ 31.2	$ 27.2	$ 26.1	$ 23.8
$ 60.5	$ 36.4	$ 32.2	$ 31.4	$ 31.1	$ 26.8	$ 21.5	$ 17.4	$ 14.3
$ 382.3	$ 196.3	$ 185.3	$ 167.1	$ 123.8	$ 100.3	$ 92.6	$ 96.8	$ 112.7
31.2%	26.7%	23.3%	24.0%	23.0%	24.4%	22.8%	24.8%	30.4%
268.9%	231.8%	219.8%	234.0%	207.5%	222.5%	215.5%	232.4%	364.2%
$1,129.5	$ 668.4	$ 615.0	$ 508.7	$ 441.6	$ 359.9	$ 333.3	$ 310.5	$ 254.5
6.4%	6.0%	6.2%	5.6%	5.3%	5.0%	5.0%	5.8%	5.6%
$ 305.7	$ 177.0	$ 152.8	$ 129.2	$ 100.0	$ 81.1	$ 72.3	$ 63.7	$ 46.8
36.5%	36.3%	35.1%	35.9%	32.5%	30.0%	28.9%	27.0%	22.2%
$ 327.5	$ 223.6	$ 212.2	$ 172.8	$ 150.1	$ 113.8	$ 109.0	$ 99.9	$ 50.9
38.1%	41.8%	42.9%	42.8%	42.0%	37.6%	38.0%	36.7%	23.7%
$ 837.7	$ 488.1	$ 435.9	$ 359.9	$ 307.4	$ 270.0	$ 250.2	$ 236.3	$ 210.7
8.9%	8.3%	8.8%	8.0%	7.4%	6.6%	6.7%	7.3%	6.9%
14.9%	12.9%	13.6%	12.1%	10.8%	9.4%	9.2%	9.7%	8.9%
$ 3.16	$ 2.61	$ 2.50	$ 2.10	$ 1.69	$ 1.37	$ 1.30	$ 1.32	$ 1.13
$ 2.84	$ 2.34	$ 2.30	$ 1.96	$ 1.57	$ 1.32	$ 1.29	$ 1.30	$ 1.11
$ .95	$ .80	$ .73	$ .67	$ .63	$ .62	$ .62	$ .62	$ .62
$ 21.40	$ 20.19	$ 18.65	$ 16.63	$ 16.39	$ 15.02	$ 14.25	$ 13.95	$ 13.33
18,728	13,080	12,786	12,678	12,620	12,551	12,437	12,296	12,261
22,830	13,263	12,853	12,672	12,658	12,578	12,491	12,370	12,289
35,363	20,076	22,112	21,598	20,826	17,960	16,346	17,593	18,120
23,837	18,903	17,485	16,363	16,631	16,103	17,003	17,373	18,613
$ 40,052	$ 34,883	$ 36,351	$ 32,846	$ 27,812	$ 23,940	$ 23,947	$ 21,894	$ 20,584
$ 2,072	$ 1,815	$ 1,591	$ 1,255	$ 1,101	$ 1,003	$ 955	$ 911	$ 772
$ 31,941	$ 33,294	$ 27,813	$ 23,553	$ 21,204	$ 20,039	$ 20,390	$ 17,649	$ 14,045

Consolidated Statements of Financial Position

(All dollar amounts in thousands)

	Assets — December 31	1978	1977 Restated
Current Assets:	Cash—Note C	$ 32,440	$ 10,092
	Marketable securities—at cost, which approximates market	1,908	4,649
	Accounts receivable, less allowances (1978—$6,148; 1977—$6,780)	284,355	250,955
	Inventories—Note D	388,810	345,640
	Other current assets	50,870	35,714
	Total Current Assets	758,383	647,050
Investments and Other Assets:	Unconsolidated financial subsidiary—Note L	19,559	22,640
	Unconsolidated real estate subsidiary—Note M	5,659	3,733
	Affiliated companies and other investments—Note N	45,327	37,004
	Other assets	58,595	35,966
	Total Investments and Other Assets	129,140	99,343
Property, Plant and Equipment— Note J:	Land	23,215	22,445
	Buildings	209,013	203,609
	Machinery and equipment	389,503	337,389
	Construction in progress	66,225	34,527
		687,956	597,970
	Less allowances for depreciation and amortization	231,684	199,229
	Total Property, Plant and Equipment	456,272	398,741
Cost of Acquired Businesses in Excess of Net Assets at Acquisition Dates—Net of amortization		77,168	80,679
	Total Assets	$1,420,963	$1,225,813

See notes to consolidated financial statements.

(All dollar amounts in thousands)

	Liabilities and Stockholders' Equity — December 31	1978	1977 Restated
Current Liabilities:	Notes payable—Note E	$ 55,504	$ 23,608
	Accounts payable and accrued expenses	272,706	221,091
	Income taxes—Note F	25,131	27,004
	Current maturities of long-term debt	13,600	8,498
	Total Current Liabilities	366,941	280,201
Long-Term Debt— Less current maturities—Note G		300,828	284,997
Deferred Income Taxes		47,623	35,964
Other Deferred Credits		20,101	16,161
Stockholders' Equity— Notes G,H, and I:	Preferred Stock-par value $1 a share: authorized-6,000,000 shares		
	$7.50 Cumulative Preferred Stock—Issued: 1977-200,000 shares	—	20,000
	$1.35 Cumulative Convertible Preferred Stock-aggregate liquidation value 1978-$8,682,192 Issued: 1978-823,516 shares; 1977-1,908,605 shares; in treasury: 1978 and 1977-100,000 shares	724	1,809
	Common Stock-par value $4 a share: authorized 80,000,000 shares Issued: 1978-27,445,056 shares; 1977-24,392,648 shares	109,780	97,571
	Additional paid-in capital	189,759	167,365
	Earnings retained for use in the business	385,368	322,293
	Less cost of Common Stock in treasury 1978-9,814 shares: 1977-32,346 shares	161	548
	Total Stockholders' Equity	685,470	608,490
Commitments and Contingencies— Note J			
	Total Liabilities and Stockholders' Equity	$1,420,963	$1,225,813

See notes to consolidated financial statements.

For the two years ended December 31, 1978 (All dollar amounts in thousands)

	$7.50 Cumulative Preferred Stock Outstanding		$1.35 Cumulative Convertible Preferred Stock Outstanding		Common Stock Issued		Additional Paid-In Capital	Earnings Retained for Use in the Business	Common Stock in Treasury	
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount
Balance January 1, 1977, as previously reported	200,000	$20,000	1,954,270	$1,954	23,006,977	$92,028	$163,969	$259,675	177,026	$2,934
Cumulative effect of restatement of capital leases—Note J								(2,651)		
Balance January 1, 1977, as restated—Note J	200,000	20,000	1,954,270	1,954	23,006,977	92,028	163,969	257,024	177,026	2,934
Net earnings for the year ended December 31, 1977, as restated								92,844		
Cash dividends:										
$7.50 Cumulative Preferred Stock—$7.50 per share								(1,500)		
$1.35 Cumulative Convertible Preferred Stock—$1.35 per share								(2,578)		
Common Stock—$1.24 per share								(29,472)		
Common Stock and Treasury Stock issued in connection with pooled companies—Note B					726,636	2,907	(3,781)	5,975	(149,999)	(2,544)
Conversion of 5% Convertible Subordinated Debentures to Common Stock					158,038	632	3,241			
Conversion of $1.35 Cumulative Convertible Preferred Stock to Common Stock			(145,915)	(146)	142,250	569	(423)			
Exercise of employee stock options			250		358,747	1,435	4,424			
Other capital transactions				1			(65)		5,319	158
Balance December 31, 1977, as restated	200,000	$20,000	1,808,605	$1,809	24,392,648	$97,571	$167,365	$322,293	32,346	$548

See notes to consolidated financial statements.

(All dollar amounts in thousands)

	$7.50 Cumulative Preferred Stock Outstanding		$1.35 Cumulative Convertible Preferred Stock Outstanding		Common Stock Issued		Additional Paid-In Capital	Earnings Retained for Use in the Business	Common Stock in Treasury	
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount
Net earnings for the year ended December 31, 1978								$101,033		
Cash dividends:										
$7.50 Cumulative Preferred Stock—$2.55 per share								(510)		
$1.35 Cumulative Convertible Preferred Stock—$1.35 per share								(1,710)		
Common Stock—$1.48 per share								(39,215)		
Common Stock and Treasury Stock issued in connection with pooled companies—Note B					593,513	$2,374	$(1,858)	3,395	(23,531)	$(387)
Common Stock issued to acquire Hoffman Electronics Corporation—Note B					489,117	1,956	11,617			
Conversion of 5% Convertible Subordinated Debentures to Common Stock					649,780	2,599	13,280			
Conversion of $1.35 Cumulative Convertible Preferred Stock to Common Stock			(1,086,839)	$(1,087)	1,059,453	4,238	(3,151)			
Redemption of $7.50 Cumulative Preferred Stock—Note H	(200,000)	$(20,000)					(200)			
Exercise of employee stock options			1,750	2	260,545	1,042	2,710			
Other capital transactions							(4)	82	999	
Balance December 31, 1978	—	—	723,516	$724	27,445,056	$109,780	$189,759	$385,368	9,814	$161

( ) Indicates deduction

See notes to consolidated financial statements.

Consolidated Statements of Earnings

(All dollar amounts in thousands except per share amounts)

	For the year ended December 31	1978	1977 Restated
Revenues:	Net sales	$1,869,944	$1,619,583
	Equity in net earnings of unconsolidated subsidiaries and affiliated companies—Notes L, M and N	8,605	4,361
	Total Revenues	1,878,549	1,623,944
Costs and Expenses:	Cost of products sold	1,304,596	1,125,408
	Selling, administrative and general expenses (includes research and development expenditures: 1978—$72,593; 1977—$59,415)	367,804	309,037
	Interest expense	33,895	32,500
	Other (income)	(2,934)	972
	Total Costs and Expenses	1,703,361	1,467,917
Earnings and Taxes:	Pretax earnings	175,188	156,027
	Federal, state and foreign income taxes—Note F	74,155	63,183
	Net earnings	101,033	92,844
	Dividends on Preferred Stock (deduction)	(2,085)	(4,078)
	Earnings Applicable to Common Stock	$ 98,948	$ 88,766
Earnings Per Share:	Earnings per share of Common Stock—Note I	$3.77	$3.69
	Earnings per share of Common Stock, assuming full dilution—Note I	$3.56	$3.38

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

(All dollar amounts in thousands)

	For the year ended December 31	1978	1977 Restated
	Cash at Beginning of Year	$ 10,092	$ 8,580
Source of Funds:	From operations:		
	Net earnings	101,033	92,844
	Provision for depreciation and amortization of plant and equipment	45,028	39,718
	Amortization of cost of acquired businesses in excess of net assets at acquisition dates	540	891
	Amortization of amount resulting from revaluation of long-term debt	639	662
	Deferred income taxes	5,521	4,574
	Equity in undistributed earnings of unconsolidated subsidiaries and affiliated companies (deduction)	(8,014)	(3,799)
	Working Capital Provided from Operations	144,747	134,890
	Decrease (increase) in marketable securities	2,741	(3,034)
	Reduction of cost of acquired businesses in excess of net assets at acquisition dates (increase)	2,971	(1,324)
	Increase in notes payable	31,896	9,989
	Increase in accounts payable and accrued expenses	51,615	33,812
	Increase in long-term debt	49,096	4,079
	Adjustment of deferred taxes from (to) current liabilities	6,138	(6,135)
	Increase (decrease) in other deferred credits	3,940	(11,757)
	Proceeds from exercise of employee stock options	3,754	5,859
	Conversion of convertible subordinated debentures into Common Stock	15,879	3,965
	Value of Common Stock issued, or taken from the treasury in connection with poolings	4,298	7,645
	Value of Common Stock issued to acquire Hoffman Electronics Corporation	13,573	—
	Other capital transactions (deduction)	78	(222)
	Total Source of Funds	330,726	177,767
Application of Funds:	Increase in accounts receivable	33,400	24,299
	Increase in inventories	43,170	24,113
	Increase (decrease) in other current assets	15,156	(14,580)
	Increase in investments and other assets	21,783	35,528
	Additions to properties, less carrying amount of disposals	102,559	57,957
	Decrease (increase) in income taxes	1,873	(9,731)
	Decrease in long-term debt	28,802	25,119
	Cash dividends	41,435	33,550
	Redemption of $7.50 Preferred Stock	20,200	—
	Total Application of Funds	308,378	176,255
	Increase in Cash	22,348	1,512
	Cash at End of Year	$ 32,440	$ 10,092

See notes to consolidated financial statements.

Note A **Accounting Policies:**

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all significant subsidiaries except those engaged in financial and real estate activities.

Inventories:

Inventories are priced at the lower of cost or market. Prior to 1978, the cost of all inventories was determined by the first-in, first-out (FIFO) method. Effective December 31, 1978, the Company adopted the last-in, first-out (LIFO) method of determining cost for substantially all domestic inventories (see Note D). Obsolete and possible excess quantities of inventory are valued at estimated net realizable value.

Investments in Unconsolidated Subsidiaries and Affiliated Companies:

The Company carries its investments in several wholly or majority-owned subsidiaries engaged principally in business activities unrelated to those of the Company and its consolidated subsidiaries on the basis of the Company's equity therein. The Company carries its investments in affiliated companies in which it holds between 20% and 50% of the voting stock and over whose operating and financial policies it is able to exercise significant influence, on the basis of the Company's equity therein. Minority investments of less than 20% are carried on the basis of cost.

Property, Plant and Equipment:

Property, plant and equipment including capital leases are stated at cost and include the cost of land, buildings, equipment and significant improvements of existing plant and equipment. Additions, improvements, renewals and expenditures for maintenance that add materially to productive capacity or extend the life of an asset are capitalized. Other expenditures for maintenance and repairs are charged to income.

Depreciation and Amortization:

Provisions for depreciation of plant and equipment are computed generally by the straight-line method based on the estimated useful lives of the assets. Amortization of capitalized leases is included in depreciation expense. For federal income tax purposes, accelerated methods are used, and provision has been made for deferred income taxes applicable to the difference between the depreciation and amortization expense for financial accounting purposes and that for income tax purposes.

Cost of Acquired Businesses in Excess of Net Assets at Acquisition Dates:

Approximately 68% of these costs arose in a 1969 merger and are not being amortized since, in the opinion of management, there has been no diminution in the value of this asset. The Company has adopted the policy of amortizing over a period not to exceed 40 years other such costs of acquisitions arising after October 31, 1970, as required by Accounting Principles Board Opinion No. 17.

Long-Term Contracts:

Long-term contracts in process are accounted for primarily on a percentage-of-completion method whereby all costs (including general and administrative expenses) are expensed as incurred and the estimated sales values are recorded as the work is performed. Certain contracts contain incentive provisions which provide for adjustments to anticipated earnings based upon performance in relation to established targets. The effects of incentive provisions are recorded when the amounts can reasonably be determined.

Pensions:

The cost of pension plans represents normal cost and amortization of prior service cost over periods ranging to forty years. Such costs are funded as accrued.

Investment Tax Credits:

Investment tax credits are accounted for by the flow-through method as a reduction of the current federal income tax provision.

Note B Mergers and Acquisitions:

In May and June 1977, the Company issued 149,999 shares of Common Stock in exchange for all of the outstanding shares of R. B. Denison, Inc., a manufacturer of industrial limit switches and sensors, 460,279 shares for Modicon Corporation, a designer and manufacturer of programmable controllers, and 266,357 shares for Hydrosystems, Inc., a manufacturer of training and simulation equipment for three branches of the armed services. In January 1978, the Company issued 593,513 shares of Common Stock in exchange for all of the outstanding shares of Bio-Mation Corporation, a developer and producer of general test instrumentation products, and in November 1978, the Company exchanged 23,531 shares of Common Stock for all the outstanding shares of Micro-Carbide Tool and Die Co., Inc. These mergers were accounted for as poolings of interests; however, the amounts involved are not material individually or in the aggregate and prior year amounts have not been restated.

In January 1978, the Company issued 489,117 shares of Common Stock valued at $13,573,000 in exchange for all the outstanding shares of Hoffman Electronics Corporation, a manufacturer of navigation and communications systems and multi-media education systems. The merger was treated as a purchase for accounting purposes and results of operations for the year ended December 31, 1978 include on a consolidated basis the operations of Hoffman from the date of acquisition. Pro forma amounts of net sales, net earnings and earnings per share, assuming that the aforementioned purchase had taken place on January 1, 1977 would not differ significantly from the reported amounts.

The Company has agreed to form a joint venture with Brown, Boveri & Company, Ltd. to conduct the business of the Company's Electrical System Group (ESG). Net sales and pretax earnings before allocation of corporate charges of ESG for the year ended December 31, 1978 were approximately $198,000,000 and $14,500,000 respectively. ESG's identifiable assets were approximately $152,249,000 at December 31, 1978.

Note C Cash:

Included in this amount at December 31, 1978 and 1977 are short-term certificates of deposit of $18,084,000 and $1,845,000, respectively.

In support of line of credit facilities, principally short-term, extended by several banks, the Company maintains compensating balances based on average bank ledger balances adjusted for uncollected funds. The required balances are either 15% of the line, or 5% or 10% of the line plus 10% of line usage.

During the year ended December 31, 1978, the Company maintained average daily compensating balances of $12,601,000. At December 31, 1978, based on the Company's borrowings and credit lines at that date, the Company had compensating balance commitments to maintain an average compensating balance of $14,150,000.

Compensating balances are not restricted as to withdrawal and serve as part of the Company's minimum operating cash balances.

Note D Inventories:

Principal classifications of inventories were (in thousands):

December 31	1978	1977
Finished products	$118,198	$118,225
Work in process	150,081	118,770
Materials	120,531	108,645
Total	$388,810	$345,640

The change in method of accounting for substantially all domestic inventories described in Note A was adopted because the Company believes the use of the LIFO method will more fairly present its results of operations by reducing the effect of inflationary cost increases in inventory, thus matching current costs with current revenues. Inventories stated under the LIFO method represent 68% of the December 31, 1978 inventory value. Since the December 31, 1977 inventory valued at FIFO is the opening LIFO inventory, there is no cumulative effect of the change on prior years. The change to LIFO decreased inventory value at December 31, 1978 by $12,941,000 and reduced 1978 net earnings by $7,441,000 ($.29 per share).

Note E Short-Term Debt:

Short-term debt consisted of (in thousands):

December 31	1978	1977
Commercial paper	$43,410	$ —
Notes payable to domestic banks	—	16,700
Notes of foreign subsidiaries payable to banks	12,094	6,908
	$55,504	$23,608

The following information relates to short-term debt (in thousands):

Year Ended December 31	1978	1977
Commercial paper (which is always covered by unused bank lines):		
Maximum amount outstanding at any month-end	$80,278	$17,050
Average amount outstanding (total of daily outstanding principal balances divided by 365)	51,205	11,167
Weighted average interest rate (actual interest expense on such borrowings divided by average debt outstanding)	8.4%	5.9%
Average interest rate at December 31	10.4%	—
Notes payable to domestic banks:		
Maximum amount outstanding at any month-end	$14,500	$16,700
Average amount outstanding (total of daily outstanding principal balances divided by 365)	10,693	4,364
Weighted average interest rate (actual interest expense on such borrowings divided by average debt outstanding)	8.9%	6.9%
Average interest rate at December 31	—	7.6%
Notes of foreign subsidiaries payable to banks:		
Maximum amount outstanding at any month-end	$16,338	$22,708
Average amount outstanding (estimated total of outstanding principal balances at month end divided by 12)	13,318	21,103
Weighted average interest rate (actual interest expense on such borrowings divided by average debt outstanding)	17.4%	15.9%
Average interest rate at December 31	11.8%	13.1%

Excluded from notes payable to banks are $42,200,000 and $36,500,000 at December 31, 1978 and 1977, respectively. These borrowings are offset by cash on deposit in the lender's foreign branches to which they have the right of offset.

At December 31, 1978, under line of credit arrangements for short-term debt with domestic banks, the Company may borrow up to $132,500,000 on terms and rates generally available to the banks' most creditworthy corporate customers. The credit arrangements do not have termination dates but are reviewed annually for renewal.

In addition, at December 31, 1978, the Company had $53,650,000 in short-term credit facilities available to its international subsidiaries for working capital requirements.

At December 31, 1978, the Company's available unused portion of credit lines and international credit facilities was $110,646,000 and the allowable unused portion was $15,947,000.

Note F Income Taxes and Renegotiation:

Federal income tax returns of the Company have been examined and settled through June 30, 1973. Preliminary settlement has been reached with the Internal Revenue Service in connection with the audit for fiscal years through June 30, 1975. Federal income tax audits for June 30, 1976 and calendar years through December 31, 1977 are in process. Federal income tax returns of certain other acquired companies are subject to examination for additional years. Clearance from the Renegotiation Board has been received by the Company and a subsidiary through June 30, 1969 and December 31, 1975, respectively.

Management believes that final settlement of taxes and renegotiation for the years not settled will not have a material effect on the consolidated financial statements. The provisions for income taxes were as follows (in thousands):

Year Ended December 31	1978	1977 Restated
Current:		
Federal	$59,189	$45,866
State and foreign	16,077	16,375
Deferred	5,521	4,574
Investment tax credit (deduction)	(6,632)	(3,632)
Total	$74,155	$63,183

A reconciliation of the Company's effective income tax rate to the statutory federal income tax rate of 48% follows:

Year Ended December 31	1978	1977 Restated
Statutory rate	48.0%	48.0%
State and local taxes, net of federal tax benefit	1.8	2.5
Investment tax credit	(3.8)	(2.3)
Effect of equity in earnings of unconsolidated subsidiaries and affiliated companies	(2.2)	(1.3)
Tax benefit related to earnings of Domestic International Sales Corporations	(1.2)	(2.5)
Foreign income taxes	(1.2)	(2.2)
Effect of exempted income from sources within the possessions of the United States	(1.0)	(0.7)
Other	1.9	(1.0)
Effective Rate	42.3%	40.5%

Provision has been made for federal income taxes relating to that portion of the undistributed earnings of foreign subsidiaries expected to be remitted to the Company. Undistributed earnings intended to be reinvested indefinitely in foreign subsidiaries and in the Company's Domestic International Sales Corporations on which deferred taxes have not been provided totaled $81,224,000 at December 31, 1978.

Note G Long-Term Debt:

Long-term debt, including current portion, was (in thousands):

December 31	1978	1977 Restated
8½% Senior notes due $2,500,000 annually from 1979, with the balance due in 1998	$ 55,000	$ 55,000
10½% Senior notes due $2,143,000 annually from 1982, with the balance due in 1995	30,000	30,000
10% Notes due $1,500,000 annually from 1979 through 1984 and $1,600,000 annually from 1985 through 1994	25,000	25,000
8⅞% Notes due $1,800,000 annually through 1981 and $1,920,000 annually from 1982 through 1991	24,600	26,400
6⅝% Notes due $1,400,000 annually through 1987, with the balance due in 1988	16,600	18,000
5.25% Notes due $1,430,000 annually to 1980	2,860	4,290
9.25% Sinking fund debentures due $1,100,000 annually through 1994, with the balance due in 1995	18,073	18,805
9.75% Notes due $625,000 annually through 1982 with the balance due in 1983	20,625	21,250
9⅜% Senior notes due in 1981	20,000	—
5% Convertible subordinated debentures called for redemption in 1978	—	16,570
Floating rate, bank loans due 1980	20,000	—
Capitalized lease obligations (see Note J)	81,835	78,260
Other long-term debt	3,580	3,395
Notes of foreign subsidiaries	222	1,131
Discount, net of tax effect, resulting from revaluation of an acquired subsidiary's long-term debt based on the current rate (9.75%) of interest at the date of acquisition (deduction)	(3,967)	(4,606)
Total	314,428	293,495
Less amounts due within one year included in current liabilities	13,600	8,498
Total Long-Term Debt	$300,828	$284,997

The agreements relating to the long-term debt include prepayment provisions and covenants and restrictions for the protection of the lenders. The agreements impose limitations upon, among other things, the creation of funded debt, the disposal of businesses, cash dividends and other restricted payments. At December 31, 1978, $239,318,000 of earnings retained for use in the business were free of restrictions under the terms of the most restrictive agreement. The aggregate maturities of long-term debt amount to approximately $34,889,000 in 1980, $33,376,000 in 1981, $15,370,000 in 1982, and $32,841,000 in 1983.

Note H **Preferred Stock:**

As of April 3, 1978, all outstanding $7.50 Cumulative Preferred Stock was redeemed at a price of $101.00 per share plus accrued dividends ($.67 per share).

The terms of the $1.35 Cumulative Convertible Preferred Stock provide that the holders are entitled to receive, out of funds legally available therefor and as declared by the Board of Directors of the Company, preferential and cumulative dividends at a rate of $1.35 per year, subject to restrictions in the Company's agreements relating to its long-term debt.

Each share of the $1.35 Preferred Stock is convertible into .975 of a share of the Company's Common Stock, subject to adjustment upon the occurrence of certain events. Each share of $1.35 Preferred Stock has .975 vote per share, again subject to adjustment, on all matters presented to the holders of the Company's Common Stock, except, in certain circumstances, the holders of $1.35 Preferred Stock may vote separately as a series.

The $1.35 Preferred Stock may, under certain circumstances, be redeemed by the Company, commencing July 2, 1979, at $18.00 per share (plus accumulated dividends). Upon liquidation or winding-up of the Company, each shareholder of the $1.35 Preferred Stock is entitled to receive $12.00 per share (plus accumulated dividends). There is no sinking fund requirement for the shares of $1.35 Preferred Stock.

Note I **Common Stock:**

As of December 31, 1978, 1,130,020 shares of Common Stock were reserved for issuance to key personnel under the Company's Stock Option Plans, including 110,187 shares for additional options which may be granted under the plans. These amounts include options granted in substitution for outstanding options of acquired companies. All options were granted at prices equal to market value on the dates granted and are exercisable generally over a period of five years. Changes in outstanding options during the two years ended December 31, 1978, and options exercisable are summarized as follows:

	Option Price Per Share	Number of Shares Optioned
Balance January 1, 1977	$ 8.69 to $29.35	1,295,741
Granted (including 27,728 assumed options)	2.35 to 32.25	386,603
Exercised	2.35 to 29.35	(358,747)
Cancelled	12.83 to 29.38	(154,592)
Balance December 31, 1977	2.35 to 32.25	1,169,005
Granted (including 76,420 assumed options)	5.56 to 46.88	217,157
Exercised	2.35 to 32.25	(260,545)
Cancelled	10.17 to 46.88	(105,784)
Balance December 31, 1978	2.35 to 32.25	1,019,833
Exercisable		601,320

In April 1978, a Stock Appreciation Rights Plan was approved by the stockholders authorizing the Company to grant stock appreciation rights with respect to option rights under any outstanding option. In lieu of exercising the stock option, the rights entitle the optionee to payment, in either the form of Common Stock or cash, of the excess of the market price per share over the option price. No such rights have been granted as of December 31, 1978.

In addition to the above mentioned reserved shares, there were 803,012 shares of Common Stock reserved for conversion of the $1.35 Cumulative Convertible Preferred Stock.

Earnings per share of Common Stock were computed by dividing net earnings (after preferred dividend requirements) by the weighted average number of shares of Common Stock outstanding. Stock options outstanding were not included in the computation because their inclusion would not have a material effect.

Note J **Commitments and Contingencies:**

The Company and its subsidiaries lease various buildings, vehicles and equipment under long-term leases. By terms of the leases, the companies are required to pay fixed and variable rentals and, in certain instances, insurance, taxes and maintenance.

The Company's 1977 consolidated financial statements have been restated to reflect the accounting for certain leases entered into prior to January 1, 1977, previously accounted for as operating leases, as capital leases by recording assets and liabilities for leased property, plant and equipment in accordance with Financial Accounting Standards Board Statement No. 13, "Accounting for Leases". The effect of this change through January 1, 1977 ($2,651,000) is recorded as an adjustment of earnings

retained for use in the business as of that date. This change reduced net income in 1977 by $767,000 or $.03 per share.

Property, plant and equipment and long-term debt include the following with respect to leases which have been capitalized (in thousands):

December 31	1978	1977 Restated
Property, plant and equipment	$86,406	$83,396
Less amortization	18,001	15,335
	$68,405	$68,061
Long-term debt:		
Current	$ 4,623	$ 3,240
Non-current	77,212	75,020
	$81,835	$78,260

Most of the capital leases contain renewal options for varying periods, with minimum rentals generally less than those stated for the initial term of the lease.

Future minimum rental commitments for all capital leases and noncancellable operating leases are as follows (in thousands):

Year Ended December 31	Capital Leases	Operating Leases
1979	$11,272	$10,997
1980	11,064	7,041
1981	10,626	5,610
1982	10,143	4,741
1983	10,036	3,909
Thereafter	122,789	11,951
Total minimum lease payments	175,930	$44,249
Less amount representing interest	94,095	
Present value of net minimum lease payments	$81,835	

Total rental expense for all operating leases amounted to (in thousands):

Year Ended December 31	1978	1977 Restated
Minimum rentals	$23,063	$18,246
Contingent rentals	1,841	1,555
Less sublease rentals	153	511
	$24,751	$19,290

The Company is a defendant in a number of lawsuits. The Company believes there will be no material adverse effect from this litigation.

Note K Pension Plans:

The Company and its consolidated domestic subsidiaries have pension plans which cover substantially all of their employees. The total pension expense for the years ended December 31, 1978 and 1977 was approximately $16,763,000 and $14,703,000, respectively.

As of January 1, 1978, the date of the latest actuarial valuation, the computed value of vested benefits exceeded the value of pension fund assets and year-end pension expense accruals for several plans by $25,827,000. Vested benefits in the remaining plans were completely funded. At the same date, the unfunded prior service cost was $59,550,000.

In 1978, Plan amendments and changes in actuarial assumptions relating principally to expense loading and retirement age used to compute pension expense resulted in increases in pension cost and unfunded prior service costs of $865,000 and $12,175,000, respectively.

Note L Unconsolidated Financial Subsidiary:

The Company's wholly-owned financial subsidiary, Gould Financial Inc., is engaged primarily in financing customers and distributors of Gould manufacturing divisions, purchasing trade receivables of Gould manufacturing divisions, and financing general industrial and commercial equipment, principally as the lessor under full payout leveraged and direct financing type leases. Gould Financial is located and conducts its business principally within the United States. The assets, liabilities, stockholder's equity and operations shown for the year ended December 31, 1977 have been restated to reflect the accounting for certain lease

contracts entered into prior to January 1, 1977 in accordance with Financial Accounting Standards Board Statement No. 13, "Accounting For Leases." Following are summarized financial statements of Gould Financial (in thousands):

December 31	1978	1977 Restated
Assets:		
Cash	$ 326	$ 2,240
Income tax benefits due from Gould Inc.	2,087	—
Finance receivables:		
Accounts and contract receivables	48,816	29,170
Direct financing & sales type leases	22,066	16,538
Leveraged leases	18,245	7,985
Less allowances for doubtful accounts	160	—
Total accounts and notes receivable	88,967	53,693
Other receivables and accrued interest	3,172	3,080
Other assets	1,502	469
Total Assets	$96,054	$59,482
Liabilities and Stockholder's Equity:		
Notes payable	$21,089	$ 8,199
Accounts payable and accrued expenses	5,647	142
Amount due Gould Inc. and consolidated subsidiaries	686	880
Long-term debt	37,535	18,233
Deferred income taxes	11,538	9,388
Stockholder's equity and advances from Gould Inc.	19,559	22,640
Total Liabilities and Stockholder's Equity	$96,054	$59,482

Year Ended December 31	1978	1977 Restated
Operations:		
Income	$ 8,756	$ 4,850
Expenses	5,213	3,141
Pretax earnings	3,543	1,709
Income taxes	1,144	381
Net Earnings	$ 2,399	$ 1,328

Gould Financial purchases (at face value and with full recourse) accounts and contracts receivable principally from Gould Inc. Finance charges on the outstanding balance of these accounts are billed monthly and are recognized as income on the accrual basis.

Gould Financial also engages in the leasing of both Gould manufactured and third party products to a variety of customers, and acts as lessor for equipment leased directly to Gould Inc. and affiliates. Leases to Gould Inc. and affiliates accounted for approximately 35% and 24% of net investment in direct financing and sales-type leases at December 31, 1978 and 1977, respectively. Gould Inc. provides full recourse for leases of Gould manufactured products which are in the lease portfolio of Gould Financial. Such leases accounted for approximately 24% and 65% of net investment in direct financing and sales-type leases at December 31, 1978 and 1977, respectively.

Under an Operating Agreement between Gould Financial and Gould Inc., dated July 25, 1978, Gould Inc. has agreed to: maintain available unused bank lines sufficient to cover 100% of Gould Financial's outstanding commercial paper, insure that the Gould Financial maintains a ratio of Senior Debt to Equity, as defined, of at least 4 to 1, and make such payments or contributions as may be necessary to insure that the Gould Financial maintains a ratio of earnings to fixed charges, as defined, of 1.5 times.

Note M Unconsolidated Real Estate Subsidiary:

In 1977, an unconsolidated subsidiary acquired a 55% interest in a Florida planned community joint venture (Wellington) for $3,500,000 cash and in 1978, acquired the remaining 45% for $7,000,000 in non-interest bearing notes. As of December 31, 1978, $5,500,000 of the notes payable remain outstanding. The investment in Wellington is accounted for on the equity method. At December 31, 1978, the Company has guaranteed $24,000,000 of Wellington's notes payable.

The assets, liabilities and operations of Wellington are summarized as follows (in thousands):

December 31	1978
Assets:	
Current assets	$18,602
Land and improvements	31,259
Other	1,714
Total Assets	$51,575
Liabilities and Stockholder's Equity:	
Notes and accounts payable and accrued expenses	$45,916
Stockholder's Equity and advances from Gould Inc.	5,659
Total Liabilities and Stockholder's Equity	$51,575

Year Ended December 31	1978
Operations:	
Income	$14,039
Expenses	14,553
Net loss	$ 514

Note N Affiliated Companies and Other Investments:

Affiliated companies and other investments include investments in companies whose operations and products are similar to those of the Company. These operations are located in Europe, South America, North America, and the Far East.

Note O Operations Outside the United States:

The consolidated financial statements include the following amounts for foreign subsidiaries (in thousands and after allocation of corporate charges). Net sales and earnings before taxes and interest also include amounts recognized by a domestic division applicable to a contract, which commenced in 1975, under which the Company, over a period of approximately four years, is purchasing and installing equipment in a plant in the U.S.S.R. to manufacture engine sleeve bearings and is training U.S.S.R. personnel for the plant.

December 31	1978	1977
Net current assets	$ 54,797	$ 46,079
Total assets	162,477	146,346
Net sales	215,734	202,129
Earnings before taxes and interest	29,241	24,799

Note P Business Segment Information:

Information concerning the Company's operations in various business segments and geographic areas for the two years ended December 31, 1978, presented in the table and the narrative on page 16 of this report, is incorporated herein by reference.

Note Q Quarterly Results of Operations (Unaudited):

The summary of unaudited quarterly results of operations for the two years ended December 31, 1978, included under Quarterly Data on page 35 of this report, is incorporated herein by reference.

Note R Replacement Cost Information (Unaudited):

The Securities and Exchange Commission has required certain major companies to disclose in their financial statements filed with the Commission the possible impact of an assumed replacement of inventories and productive assets (buildings, machinery and equipment) at current price levels.

Given the cumulative impact of inflation on the long-lived nature of assets being replaced, normally a substantially greater capital investment (replacement cost) would be required to replace the assets than was originally required to purchase the assets (historical cost), and the related provision for depreciation and cost of sales would tend to be greater than the amounts based on historical cost.

The Company's annual report on Form 10-K contains specific information with respect to estimated year-end replacement cost of inventories and productive assets, and the approximate effect which replacement cost would have had on the computation of cost of products sold and depreciation expense. The estimates do not reflect any improvement in productivity resulting from new plant and equipment.

Report of Independent Accountants:

Board of Directors,
Gould Inc.

We have examined the consolidated statements of financial position of Gould Inc. and consolidated subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Gould Inc. and consolidated subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period, except for the change in the method of determining inventory cost as explained in Note D to the consolidated financial statements and after restatement for the change in the method of accounting for leases, as explained in Note J to the consolidated financial statements. We concur with both changes.

Chicago, Illinois
January 29, 1979

Ernst & Ernst

E&E

Annual Meeting of Stockholders

The annual meeting of Gould Inc. stockholders will be held at 4:00 PM, Wednesday, April 25, at the Stouffer's Inn On The Square, Cleveland, Ohio. All Gould stockholders are encouraged to attend this meeting and take part in discussions of the Company's affairs. There will be an opportunity to meet personally with the directors and officers responsible for Gould's operations. A notice of the meeting and proxy statement explaining the various issues to be considered has been mailed to registered stockholders.

Gould Common Stock

The Common Stock is listed on the New York and Midwest Stock Exchanges and is quoted in the daily stock tables carried by most newspapers. The ticker symbol for Gould Inc. stock is GLD. Transfer agent and Registrar for Gould Common Stock is Morgan Guaranty Trust Company of New York.

Gould Debentures

The registrar/transfer agent for the debentures is Citibank, N.A., the trustee First Trust Company of St. Paul.

Gould Eurodollar Debentures

The Company has two issues of Eurodollar Debentures which are listed on the Luxembourg Stock Exchange. The trustee, paying agent and transfer agent on these debentures is the Morgan Guaranty Trust Company of New York.

Dividend Reinvestment Program

Since 1972, Gould has offered stockholders the opportunity to have their dividends automatically reinvested in additional Gould common shares. In 1978, the Plan was improved by offering reinvestment services free of charge to stockholders. Gould now pays all administrative and brokerage fees, thereby providing a simple and free way of putting your quarterly dividends to work. This improved Plan is administered by Morgan Guaranty Trust Company of New York. If you enroll, your quarterly dividend check will be mailed directly to Morgan. The bank will buy Gould stock and add it to your account. If you would like to know more about this Plan, we will gladly send you a brochure that explains it and includes an authorization form, should you decide to join. For a copy, write to: Nancy R. Jack, Secretary, Gould Inc., 10 Gould Center, Rolling Meadows, Illinois 60008.

Form 10-K Reports

Copies of the Company's Form 10-K report to the Securities and Exchange Commission are available free of charge to stockholders, and may be obtained by writing to Nancy R. Jack, Secretary. For further information on the Company, please contact Wm. H. Hanley, Vice President, Investor Relations, Gould Inc., 10 Gould Center, Rolling Meadows, Illinois 60008, (312) 640-4055.

Quarterly Data (Unaudited) Quarter ending	**1978 Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**	**1977 Restated Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Net Sales (millions)	$493.1	$464.9	$471.9	$440.1	$433.3	$402.9	$405.9	$377.4
Gross Profit (millions)	148.6	137.9	145.0	133.9	132.3	120.8	126.8	114.3
Net Earnings (millions)	25.5	24.8	27.3	23.4	25.2	22.7	24.2	20.8
Earnings Per Share of Common Stock	$ .93	$ .93	$1.03	$ .89	$1.00	$ .90	$ .96	$ .86
Earnings Per Share of Common Stock, Assuming Full Dilution	.90	.88	.96	.83	.92	.83	.88	.78
Dividends Per Share	.40	.40	.34	.34	.34	.34	.28	.28
Stock Price, High*	$ 32½	$ 34¼	$ 30⅞	$ 29⅛	$ 31¼	$ 31½	$ 34⅝	$ 32⅞
Stock Price, Low*	26	29	26⅝	24⅞	28⅛	29⅛	29½	27⅞

Quarterly financial data for 1977 has been restated to reflect the change in method accounting for certain leases entered into prior to January 1, 1977 (See Note J). A reconciliation to previously reported quarterly data is not presented due to the immaterial effect of the change. The first three quarters of 1978 have been restated from previously reported amounts due to the Company's adoption of LIFO (See Notes A and D). The following represents the reduction to amounts in each quarter due to the adoption of LIFO:

Quarterly Data (Unaudited) Quarter ending	**1978 Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Gross Profit (millions)	$4.0	$3.7	$2.9	$2.4
Net Earnings (millions)	2.2	2.1	1.7	1.4
Earnings Per Share of Common Stock	$ .08	$ .08	$ .07	$ .05
Earnings Per Share of Common Stock, Assuming Full Dilution	.08	.07	.06	.05

*Traded on the New York Stock Exchange: Symbol GLD

Gould Directors, Officers, Scientific Advisory Board and Committees

Directors

Claude M. Blair	Chairman of the Board, National City Bank of Cleveland, Cleveland, Ohio
Daniel T. Carroll	President, Gould Inc., Rolling Meadows, Illinois
Roy D. Chapin, Jr.	Former Chairman of the Board, American Motors Corporation, Southfield, Michigan
Daniel J. Donahue	President and Director, Atlanta/LaSalle Corp., Niles, Illinois
Harold E. Foreman, Jr.	President, Willow Service Company, Northbrook, Illinois
Howard M. Love	President and Chief Operating Officer, National Steel Corporation, Pittsburgh, Pennsylvania
William C. Musham	Vice Chairman, Gould Inc., Rolling Meadows, Illinois
Donald W. Nyrop	Former Chairman and Chief Executive Officer, Northwest Airlines, Inc., St. Paul, Minnesota
Keith R. Potter	Vice Chairman and Director, International Harvester Co., Chicago, Illinois
Louis H. Roddis, Jr.	Consulting Engineer and Former President of Consolidated Edison Company of New York
H. Chapman Rose	Of Counsel, Jones, Day, Reavis & Pogue, Cleveland, Ohio
Leo H. Schoenhofen	Former Chairman of the Board and Chief Executive Officer, Marcor, Inc., Chicago, Illinois
John P. Schroeder	Former Vice Chairman, J.P. Morgan & Co., Inc, New York
A. A. Sommer, Jr.	Partner, Wilmer, Cutler & Pickering, Washington, D.C.
Lyman E. Wakefield, Jr.	Chairman, Resource Trust Company, Minneapolis, Minnesota
William T. Ylvisaker	Chairman and Chief Executive Officer, Gould Inc., Rolling Meadows, Illinois
Archibald B. Jackson	Honorary Director

Committees of the Board

Executive	Nominating	Compensation	Audit
Claude M. Blair	Howard M. Love	Claude M. Blair	Daniel J. Donahue
Daniel T. Carroll	Donald W. Nyrop	Roy D. Chapin, Jr.	Harold E. Foreman, Jr.
William C. Musham	Louis H. Roddis, Jr.	H. Chapman Rose	Keith R. Potter
Donald W. Nyrop	John P. Schroeder	Leo H. Schoenhofen	A. A. Sommer, Jr.
Keith R. Potter	William T. Ylvisaker	Lyman E. Wakefield, Jr.	
H. Chapman Rose			
William T. Ylvisaker			

Officers

William T. Ylvisaker	Chairman of the Board and Chief Executive Officer	Charles M. Brennan III	Vice President
William C. Musham	Vice Chairman	Harry A. Caunter	Vice President
Daniel T. Carroll	President	Delbert O. Fuller	Vice President
George P. Millington, Jr.	Senior Vice President	Stanley N. Gaines	Vice President
Edwin C. Parker	Vice President-Finance	William H. Hanley	Vice President
Dr. Robert H. Pry	Vice President-Research and Development	John N. Hanson	Vice President
Dr. Eric W. Vetter	Vice President-Human Resources	J. Richard Iverson	Vice President
		Robert T. Norris	Vice President
Gerald E. Schultz	Vice President-Controller	James B. Owens	Vice President
Eugene F. Sikorovsky	Vice President-General Counsel	David Simpson	Vice President
Terrance J. Bruggeman	Treasurer		
Nancy R. Jack	Secretary		

Scientific Advisory Board

Dr. Robert H. Pry	Chairman of the Scientific Advisory Board and Vice President, Research and Development, Gould Inc.
Dr. Eugene G. Fubini	President, E. G. Fubini Consultants, Ltd.
Thomas E. Lynch	Consultant and former Vice President, Gould Inc.
Dr. John R. Pierce	Professor of Engineering at California Institute of Technology
Louis H. Roddis, Jr.	Consultant and former President of Consolidated Edison Company of New York
Dr. Milton L. Selker	Consultant and former Vice President, Gould Inc.
Dr. Eric A. Walker	President Emeritus, Pennsylvania State University

Design: RVI Corporation, Chicago

GOULD

Gould Inc.
10 Gould Center, Rolling Meadows, Illinois 60008
Telephone: 312.640.4000
Telex: 28.2473

SEPTEMBER 1979

INDUSTRIAL MARKETING

The magazine for advertising and selling to business and industry

William T. Ylvisaker

Delbert O. Fuller

Gould Inc.: Gaining a corporate identity

The ad exec: Beyond promoter to communicator

Is your advertising format on target?

Can computers replace agency executives?

Inquiries: Bridging advertising and sales

Gould Inc.: Getting Noticed

During the past ten years, this invisible giant has quietly increased sales 16 fold and acquired 34 other companies. Two top execs tell how the company is broadening its identity in world markets.

by Emmett Curme

What do you have to do to get noticed? This is the big question that is troubling the 38,000 people who work for Gould Inc.

If Gould does not ring any bells with you, do you remember a company by that name which made batteries and had sales 10 years ago of $115,000,000?

Did you know that Gould ranks 152nd on the *Fortune* 500 list of the largest companies in the U.S.? Are you aware that there are 106 Gould plants in the U.S. plus 35 operations in 13 foreign countries?

Many things have happened in the last 10 years but few people are aware of the phenomenal growth of the one-time battery company. Gould has increased its sales 16 fold, last year racking up volume of $1.86 billion with net earnings of more than $101,000,000.

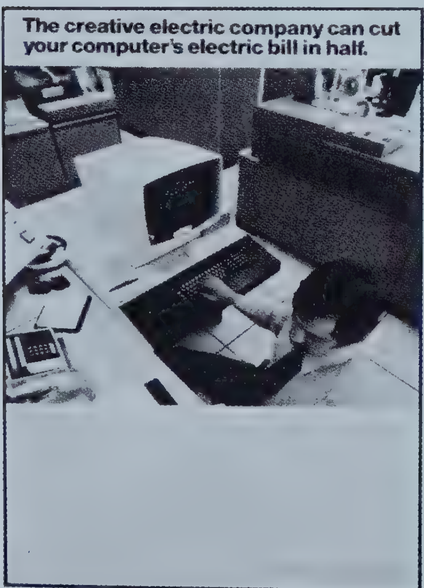
The company has expanded from making only batteries to developing and manufacturing products in four technologically related fields: electronics, electromechanics, electrochemistry and metallurgy. Electrical products account for 74% of Gould's sales and the remaining 26% from industrial products.

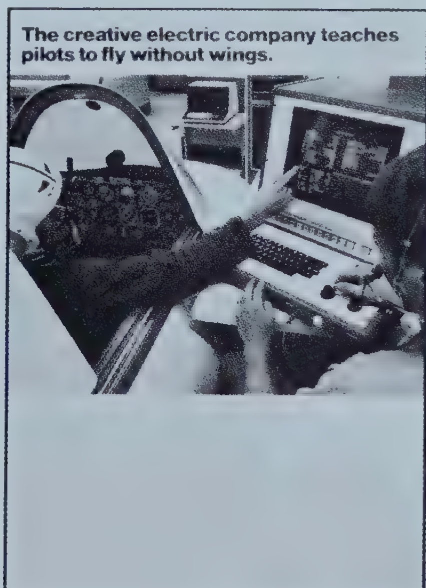
The major reason for Gould's rapid growth has been acquisitions and mergers. The firm has acquired 34 other companies since 1969.

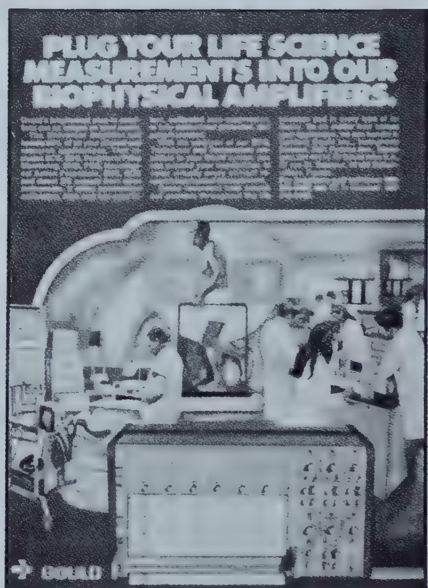
To find out what Gould is doing to broaden its identity, how it communicates with the outside world, and the problems it encounters in promoting its products and services, INDUSTRIAL MARKETING visited its spacious headquarters complex in Rolling Meadows, a northwest suburb of Chicago. The company occupies five buildings on a 67-acre plot that has been its headquarters since 1976.

IM talked with two men—William T. Ylvisaker, board chairman and chief executive officer, who has been the driving force behind the burgeoning growth, and Delbert O. (Del) Fuller, the top communications executive.

William T. Ylvisaker is one chief executive who is an active participant in his company's advertising and com-







Corporate ads (left, center) run in financial magazines and newspapers; division ads (right), in trade media.

At Gould's annual Communicators' Seminar, key advertising and marketing personnel from all divisions, their agencies, and corporate communications staff gather for two days of intensive meetings and workshops.

CONTINUED FROM PAGE 58
Associates, distribution and controls; Campbell-Mithun, automotive battery and portable battery; Carr-Liggett, elastomer products, engine parts, foil, foundry products, instruments and powder metal; McKinney Inc., distribution and controls, industrial battery, plastics and world trade; Horton, Church & Goff, Modicon; and Kanan, Corbin, Schupak & Arnow, educational systems.

Others are John Musch & Associates, measurement systems; Morrisey Group, Chesapeake instrument, information identification, NavCom, ocean systems and simulation systems; Regis-McKenna, biomation; Stone & Manning, electric fuse; Swanson, Sinkey & Ellis, fluid components; and Zylke & Affiliates, hose and couplings and valve and fittings.

The three agencies which place Gould overseas ads are Tibbenham, portable battery, instruments and electronic supply; Steadman Bush, foil, instruments, and electronic components; and Marsteller, which has everything else. All are located in England. Gould spends about 5% of its ad dollars for overseas advertising.

Gould hit a publicity jackpot this year as far as exposure to the general public is concerned when Rick Mears, driving the "Gould Charge," won the Indianapolis 500. The Gould name, prominently displayed on the sides and wings of the car, and on Mears' uniform, was seen by millions on tv and in print around the world.

Mr. Fuller estimated that Gould spent about $1,000,000 for racing activities last year. It has full sponsorship of two cars this year and is an associate sponsor of another car.

Gould has a natural tie-in with auto racing. Its engine bearings were used in the last 23 winning Indy cars.

The company got into car racing last year for the first time in an effort "to broaden our identity," Mr. Fuller said. A three-year contract was signed with Roger Penske and his team of top drivers. The two drivers who drove the "Gould Charge" last year were Rick Mears and Mario Andretti.

Mr. Fuller said the racing program has gone over very well with the Gould divisions and their employes and customers. Salesmen take customers to see the races, and employes and their families attend the races. Many of the divisions have featured the Gould Charge in their advertising and tied contests and promotions to the car.

It is available for display, often with the driver, at trade shows, open houses, shopping malls, groundbreaking ceremonies and other affairs.

Mr. Fuller said one division conducted a distributor contest tied to the racing car and experienced a 40% increase in sales last year. He considers the car an "excellent marketing tool."

The new headquarters auditorium, just opened in April, is the latest department to enter the corporate communications complex. It seats about 400 persons and is equipped with new audio-visual equipment and a sound booth.

"We will hold a lot of stockholder and company meetings in this facility, and it also will be rented out to organizations outside the company," Mr. Fuller said.

Also located in the Gould corporate complex is a Management Education Center, which has dining facilities and living quarters, and numerous classrooms equipped with audio/visual equipment. The company conducts classes for company managers throughout the year in a number of different areas, one of which is market-

Indy 500 winner Rick Mears beams a smile at the crowd on the cover of this sales piece. B&w version of this photo was used in a *Wall Street Journal* ad.

"Gould hit a publicity jackpot this year as far as exposure to the general public is concerned when Rick Mears, driving the Gould Charge, won the Indianapolis 500. The Gould name was seen by millions on tv and in print around the world."

munications programs.

His participation in marketing activities was recognized last year when he was named "Marketing Man of the Year" by the Chicago chapter of the American Marketing Assn.

Last year at his request, a procedure was set up at Gould where all ads and product publicity materials from all divisions and from the corporate communications department are sent to the management committee for review. He promised associates that he would find time to examine all the material.

Mr. Ylvisaker stressed the importance of advertising to a company like Gould, which is not nearly as visible as a company which sells its products directly to consumers.

"Our ads are tailored to create an awareness for the company in the investor area," he said. "We make quality products and we try to project a quality image to investors, customers and the general business community."

The Gould ceo said his company has looked at consumer advertising media but has decided not to use them—at least for the present. "We could not use tv and radio as efficiently and as effectively as we do business magazines and trade publications," he said.

Mr. Ylvisaker predicted that the company will continue its aggressive acquisition program and will continue to bring out numerous new products. He added, however, that Gould has no plans to diversify and will continue to operate in the four areas in which it currently does business.

Mr. Fuller, vp-communications, was a vp-management supervisor with Tinker, Dodge & Delano (now Tinker Campbell-Ewald), New York, and had an extensive background in advertising and marketing with several companies before joining Gould in 1974.

He heads the corporate communications department and is responsible for corporate advertising, market research, pr, financial relations and employe communications. His staff of 16 includes seven department heads.

Among the key executives who report to him are Arnold Freed, director of corporate advertising, and Marion G. Durk, vp-public relations. Mr. Freed is responsible for corporate advertising and corporate identity, trade shows, marketing sales promotion, sales contests and promotion for the company's car racing activities. Ms. Durk is responsible for all financial and corporate pr programs, and employe communications.

"I joined Gould as vp-marketing," Mr. Fuller recalled. "The company was smaller then. Later, as we grew larger and market research became more decentralized, the marketing department was discontinued."

The corporate communications department has capabilities in all areas of communications with the exception of media placement, Mr. Fuller said. He made it clear, however, that Gould has no interest in setting up a house agency.

"I don't think we could hire enough top advertising talent and have enough work to keep them busy," he said. "We feel that our agencies do an excellent job for us and see no reason to want to change."

Key members of the corporate communications department and Gould's

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corporate agency, Marsteller Inc., Chicago, meet once every month "to share ideas, assign responsibilities and discuss problems," according to Mr. Fuller.

Gould is a major industrial advertiser with a total advertising-communications budget this year of $10,000,000. Some 60% of the budget, goes into advertising for its divisions. The remaining $4,000,000 will be spent for corporate advertising and pr.

Gould has been increasing its promotional budget each year in order to keep pace with its burgeoning sales and earnings. In 1978, the company had total advertising expenditures of about $8,000,000 with the same ratio—60% for divisions and 40% for corporate advertising.

Corporate advertising this year stresses two primary areas—financial and technology. The financial ads feature earnings-per-share growth, research and development investment, new product innovation and capital expenditure growth. The technology ads feature technology and innovation and technology and risk-reward.

Financial magazines and newspapers are being used exclusively to bring the corporate messages to the investment and business community. Magazines on the schedule include *Business Week, Financial World, Forbes, Fortune, Institutional Investor, Pensions & Investments* and *Scientific American. Barron's* and the *Wall Street Journal* are the two newspapers.

The primary goal of the corporate ads is to influence the financial community and to upgrade Gould stock. "We are trying to build an awareness and a more favorable image for the company in the financial and business community," Mr. Fuller said.

One of Mr. Fuller's key jobs, and probably his toughest, is to keep in close touch and communicate with 37 Gould divisions that are scattered throughout the U.S. "Each division develops its own marketing and advertising program and the final plan is the responsibility of its general manager," Mr. Fuller said.

Divisions have their own marketing and advertising personnel and many have their own advertising agencies. After the plans are completed, they are sent to corporate headquarters where they are first reviewed by group vps and later by top management, including the president and board chairman. Occasionally, some alterations and changes in divisional programs are made by top management, Mr. Fuller said.

The most important communications meeting of the year at Gould is the annual Communicators' Seminar, which is held at corporate headquarters. Key advertising and marketing personnel from all the divisions and their agencies meet with the corporate communications staff for two days of intensive meetings and workshops.

More than 80 persons attended the seminar this year in May. Attendees were housed and fed at Gould's management education center.

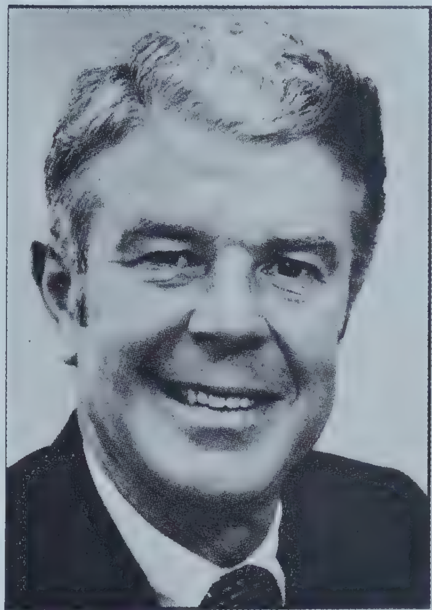
"Such topics as current goals, company philosophies and plans for the coming year are discussed by those attending the meeting," Mr. Fuller said. "It is also an excellent time to talk about the various problems that divisions are encountering, possible solutions to those problems, and all kinds of ideas on promotional and advertising techniques."

The company presents a number of awards to various division personnel for the best communications programs. The top award is Communicator of the Year, a silver trophy, which was presented this year to J. A. (Jack) Bain, marketing services manager, for Gould's electric motor division in St. Louis. Ten other certificates for outstanding communications programs were also awarded this year.

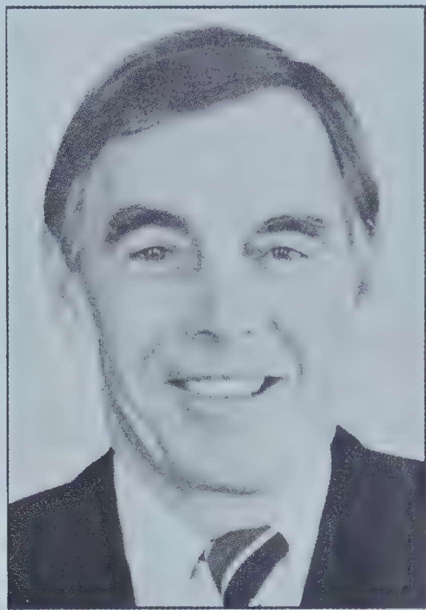
This is the third year for the Communicators' Seminar and, said Mr. Fuller, Gould divisions respond enthusiastically. Winning communications programs are picked by the corporate staff, which judges effectiveness and the total utilization of communications tools.

One division for example, spent more than $2,000,000 for advertising in 1978. Two others invested more than $1,000,000 in promotional activities. The distribution and controls division, which sells electrical distribution equipment, motor control equipment, and electrical components, spent $2,400,000 on promotion last year, of which $800,000 went into business paper advertising.

The automotive battery division, which markets automotive batteries, heavy duty truck batteries, and recreational batteries, had total expenditures of $1,250,000, with $550,000 going into space ads.



DELBERT FULLER



WILLIAM YLVISAKER

The instruments division, which markets instruments, oscilloscopes and recorders, had a total budget of $1,200,000, with $600,000 being spent in space advertising.

No fewer than 13 agencies handle advertising for Gould divisions in the U.S. The biggest chunk is controlled by Marsteller, which, in addition to corporate advertising, has automotive battery, electric motor, electronic components, foundry products, insulator, leasing, medical products, new business, power systems and switchgear divisions.

Other Gould agencies and the divisions they handle include: Ashbey &

PLEASE TURN TO PAGE 60

J. A. Bain, named Gould Communicator of the Year, accepts congratulations and a silver trophy from Delbert Fuller.

ing. Thousands of Gould members managers have attended some 55 management education programs since the center opened in 1975.

Gould has one company logo, adopted in 1970, that is standard and is used by all divisions. A corporate identity book has been published and sent to all divisions to follow. The book covers ads, collateral material, press releases and packaging.

As for collateral material, Gould "insists on quality," Mr. Fuller said. He and members of his staff stand ready to advise and help the various divisions in developing high-quality collateral materials. He added that the divisions have increased their output of product publicity over the last four years.

Trade shows are an important means of communicating at Gould. This year, the company's divisions will participate in 69 different trade shows and Gould will spend an estimated $700,000 in the medium.

The company leases modular exhibits and the corporate communications department handles the shipping and return of all exhibits for the various divisions. "The flexibility of the modular exhibits permits several of our divisions to have their own corner at a joint exhibit in the same trade show," Mr. Fuller said.

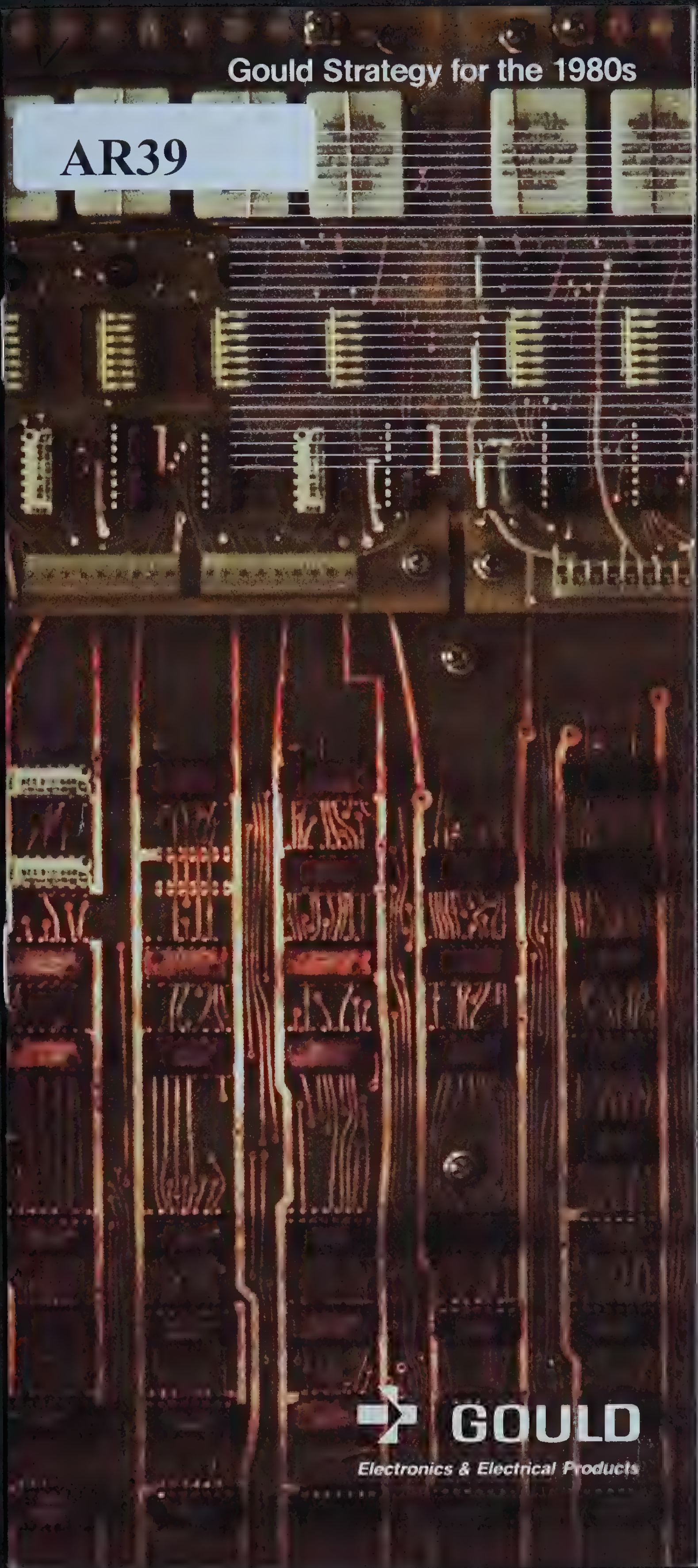
He said that when he first joined the company, some divisions refused to share an exhibit with another division. He changed that thinking, pointing out that "Sharing an exhibit saves money but we had to prove to some divisions that traffic would improve with a joint exhibit." Gould won two awards last year for the best exhibit at two shows.

The most unusual item in Gould's communications arsenal is a series of technology dialogues that the company has been publishing for some six years. The first booklet was entitled, "Technology: Abandon, endure or advance?"

The dialogue booklets are written by the corporate communications staff with the assistance of the Marsteller agency. The messages are non-commercial and many deal with government involvement in technology.

Mr. Fuller said the booklets currently are mailed to about 16,000 government and business leaders, customers, colleges, libraries, and other key persons. "We have received much feedback from the dialogues and we feel that they have helped people to better understand government," Mr. Fuller said. ■

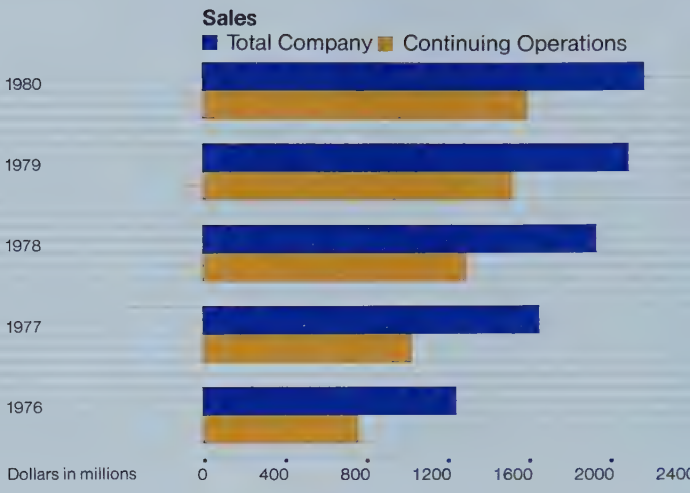
Gould Strategy for the 1980s

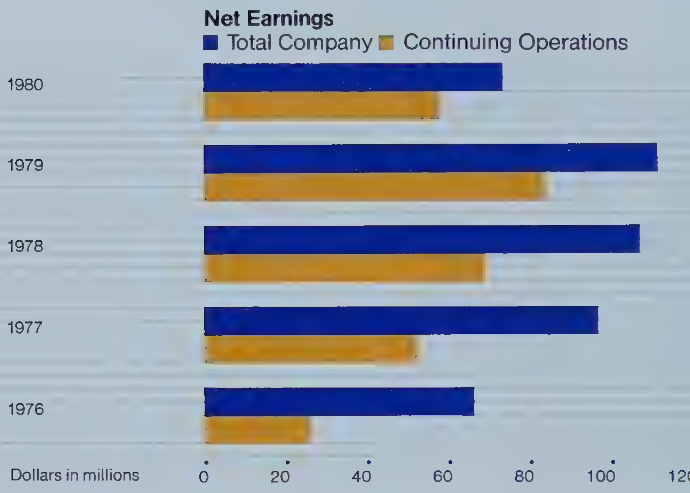


GOULD

Electronics & Electrical Products

Gould is repositioning itself to take advantage of the rapidly growing electronics markets in the 1980s and beyond. Building on our present highly profitable electronics business base, we are now committing more of our financial and technological resources to generate additional profitable growth in the electronics and electrical industries.



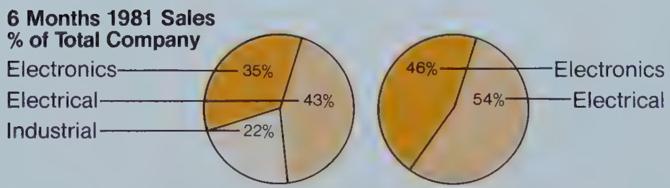


New Directions for Gould

During the 1970s, Gould grew from a small midwestern battery manufacturer into a $2-billion worldwide supplier of electronic, electrical and industrial products.

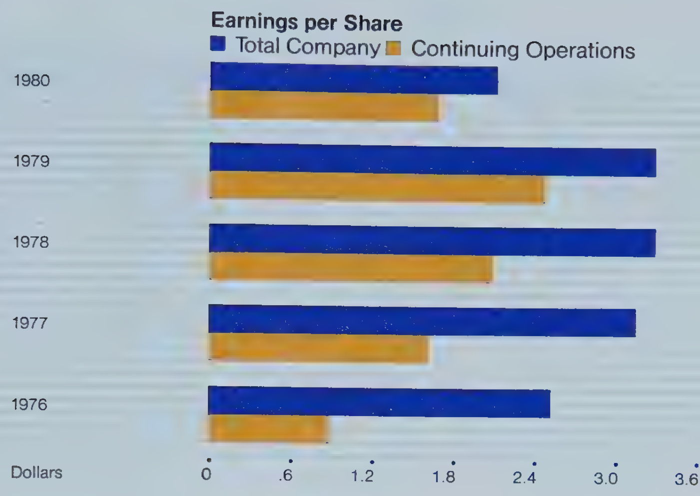
Although all of Gould's businesses contributed to this growth, the electronics segment has grown the most rapidly in recent years. Expanding markets combined with the proven capabilities of our electronics operations means even greater opportunities for Gould in the 1980s.

That is why Gould made the strategic decision to divest its industrial businesses



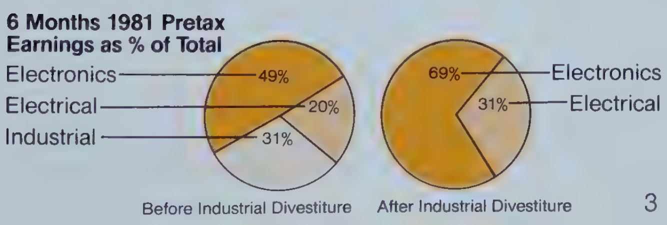
Before Industrial Divestiture

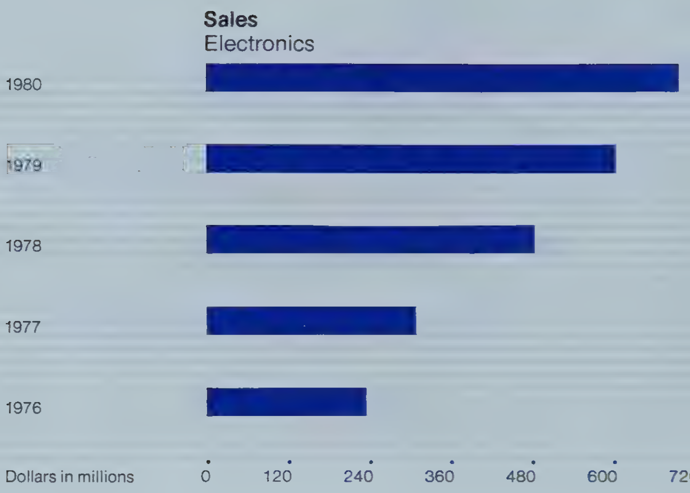
After Industrial Divestiture



and emphasize its future growth in electronics. With the divestiture now completed, we are using the proceeds to strengthen our balance sheet and to finance the more rapid growth of our electronics sector.

Gould's strategy is to invest only in those businesses where we are or can become market leaders and earn above average returns. Growth will be mainly generated internally, supported by our R&D and product development organizations. Some small acquisitions will also be made to more rapidly expand our product offerings.





The Electronics Marketplace

The growth within Gould's electronics operations will be concentrated in six targeted areas. These are all high-technology markets offering attractive margins. They are markets where our technological capabilities already provide strong competitive advantages.

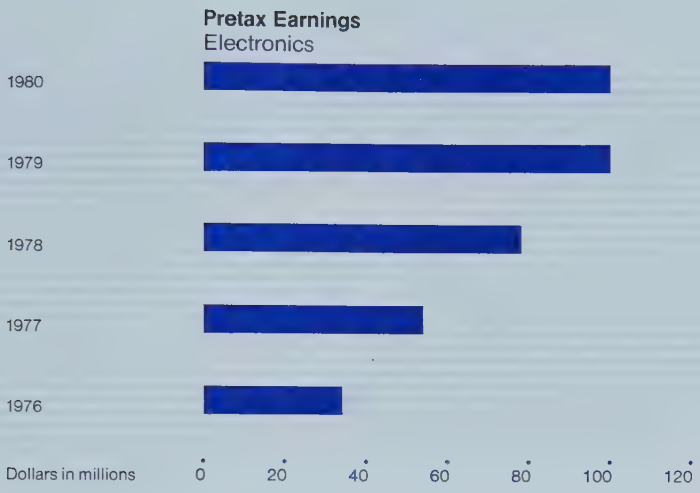
1. High-Speed Minicomputers
Gould was a pioneer in the development of the 32-bit minicomputer market. New products have made us leaders in the simulation, energy management, laboratory and computational markets. Our position in factory automation and medical products provides even greater new growth opportunities. Additionally, Gould plans to enter many other high-growth market segments.

2. Factory Automation
Industry will increasingly rely upon electronics to automate all phases of its operations.

Gould has already achieved a leadership position in this rapidly growing market through new product innovation. Key products include programmable controllers, data highway and information collection systems, precision servo drives, 32-bit minicomputers, computerized imaging systems and transducers.

The potential for linking these products into complete systems offers even larger opportunities for Gould.

3. Test and Measurement
The scientific, industrial and government communities have increasing requirements to gather, process, analyze and record



information. These needs can only be achieved by the use of precision test and measuring instruments.

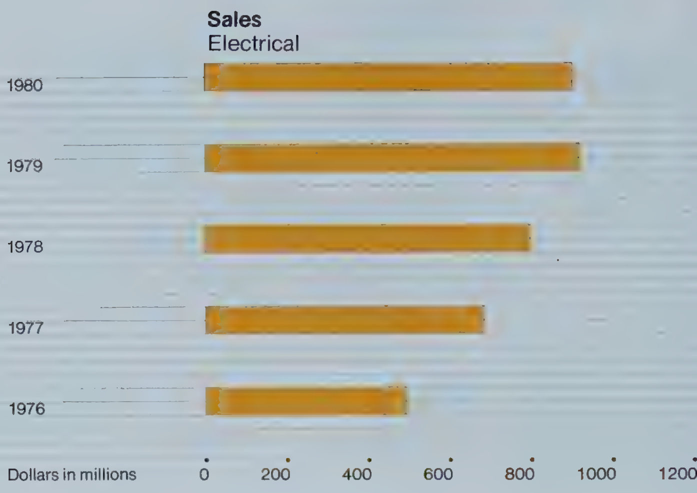
Gould is an important factor in this worldwide market with an advanced line of digital and analog recorders, digital storage oscilloscopes and logic analyzers.

4. Medical Instrumentation
Developments in medical science and health care efficiency are rapidly expanding through electronic innovation.

Gould plays a key role in this advance as a major producer of blood pressure transducers, patient monitoring equipment and instrument systems for use in critical care and health screening for cardiovascular and cardiopulmonary applications.

5. Defense Systems
Gould provides a vital link in the free world's growing undersea defense network with the Mark 48 heavyweight torpedo and towed array sonar systems. Additional military products include tactical air navigation equipment and other electronic devices.

6. Electronic Components and Materials
Gould has the major share of market for electrolytic copper foil used in the production of printed circuit boards. Domestic and foreign production facilities are being expanded to meet rising demand driven by the increased use of semiconductor devices. Another important product is Gould's uninterruptible power system for keeping computers functioning during power failures.



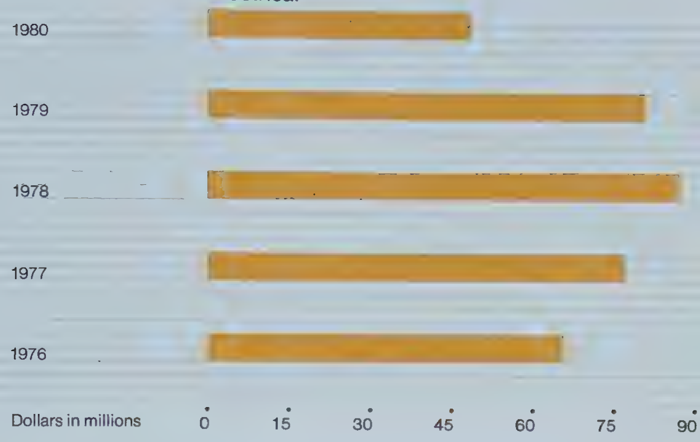
The Electrical Marketplace

Gould has a well-established base in the electrical products industry. Our strategy is to concentrate future activity in four major areas that have strong profit and cash flow potential.

1. Distribution and Circuit Protection
Electric power must be safely distributed and controlled before it can be usefully employed. Gould serves this need in the industrial, commercial and residential markets as a major supplier of switchboards, circuit breakers and fuses.

2. Industrial Controls
Gould relays, starters and motor controls are available in a complete range of ratings for industrial and marine applications. These products provide a natural fit into Gould's strategic approach to the factory automation market.

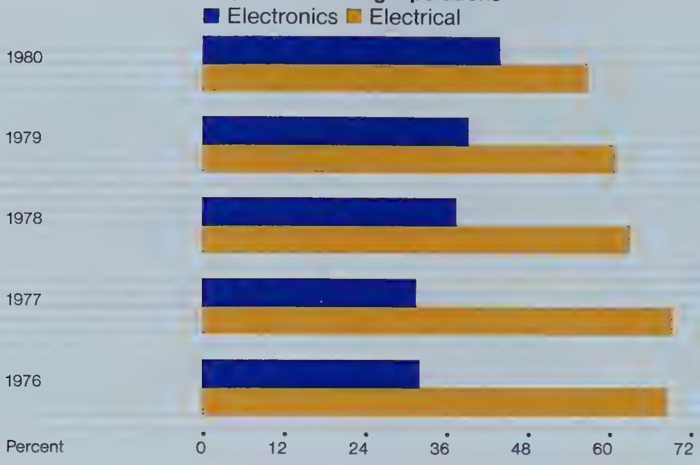
Pretax Earnings
Electrical



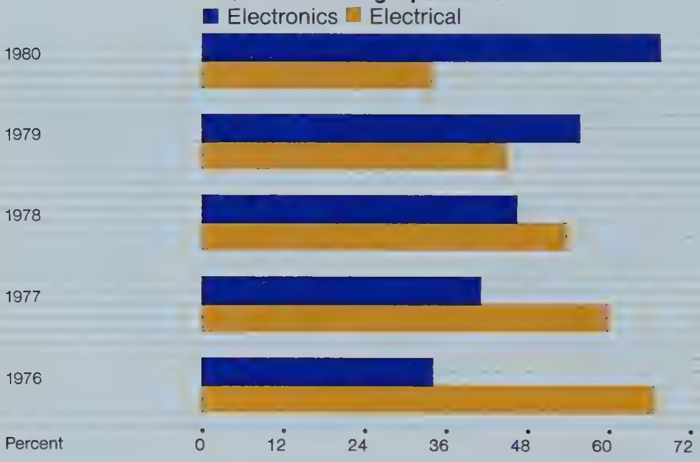
3. Electric Motors
A large portion of the energy generated throughout the world is consumed by electric motors. The need for conservation continues to increase the demand for Gould's energy efficient motors. Our diverse line ranges from subfractional types for small appliances to large integral horsepower ratings for heavy industrial machinery. Gould also manufactures diesel electric generators for standby and remote power systems..

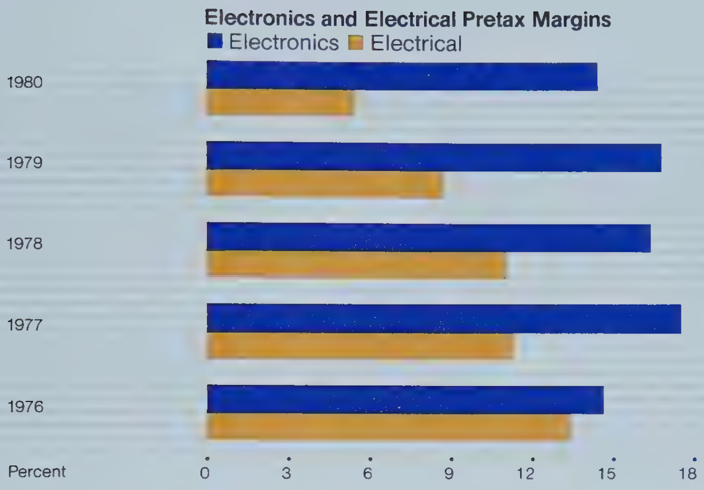
4. Batteries
Gould is the established leader in advanced battery research and development and product innovation. Two recent examples are the maintenance free battery and zinc air cell. Gould's full line ranges from hearing aid button cells to batteries for uninterruptible power supplies and nuclear submarines..

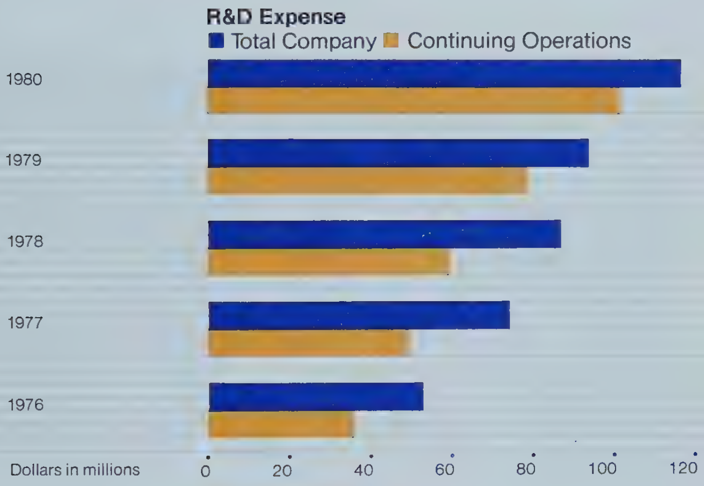
Electronics and Electrical Sales as % of Continuing Operations



Electronics and Electrical Pretax Earnings as % of Continuing Operations




Electronics and Electrical Pretax Margins
Electronics
Electrical
1980
1979
1978
1977
1976
Percent
0
3
6
9
12
15
18


R&D Expense
Total Company
Continuing Operations
1980
1979
1978
1977
1976
Dollars in millions
0
20
40
60
80
100
120

Statements of Financial Position

(Amounts in thousands—except per share amounts)

	Dec. 31, 1980	June 30, 1981	Pro Forma June 30, 1981 *
Cash and equivalents	$ 5,073	$ 7,880	$ 197,162
Other current assets	603,336	679,684	679,684
Net assets of discontinued operations	339,133	330,796	104,979
Total Current Assets	$ 947,542	$1,018,360	$ 981,825
Net property, plant and equipment	418,063	452,835	452,835
Other assets	170,766	162,698	162,698
Total Assets	$1,536,371	$1,633,893	$1,597,358
Current debt including current maturities	$ 43,486	$ 135,492	$ 46,457
Taxes payable	—	—	52,500
Other current liabilities	291,234	283,219	283,219
Total Current Liabilities	334,720	418,711	382,176
Long-term debt	368,010	356,326	356,326
Deferred taxes and credits	30,580	36,950	36,950
Stockholders' equity	803,061	821,906	821,906
Total Liabilities and Stockholders' Equity	$1,536,371	$1,633,893	$1,597,358
Total debt as a % of total invested capital	33.9%	37.4%	32.9%
Book value per share	$ 23.10	$ 22.72	$ 22.72
Common shares outstanding at end of period	34,618	36,050	36,050

*The pro forma financial statement reflects the application of the estimated sales price of the Industrial Group to cash, the retirement of domestic short-term debt and the provision for income taxes resulting from the sale. The remaining net assets of discontinued operations represent holdbacks for the transfer of certain foreign assets waiting regulatory approval for transfer, a 10% holdback pending final audit and approximately $15 million of non-industrial Group assets being sold.

Summary of Operations

(Amounts in thousands—except per share amounts)

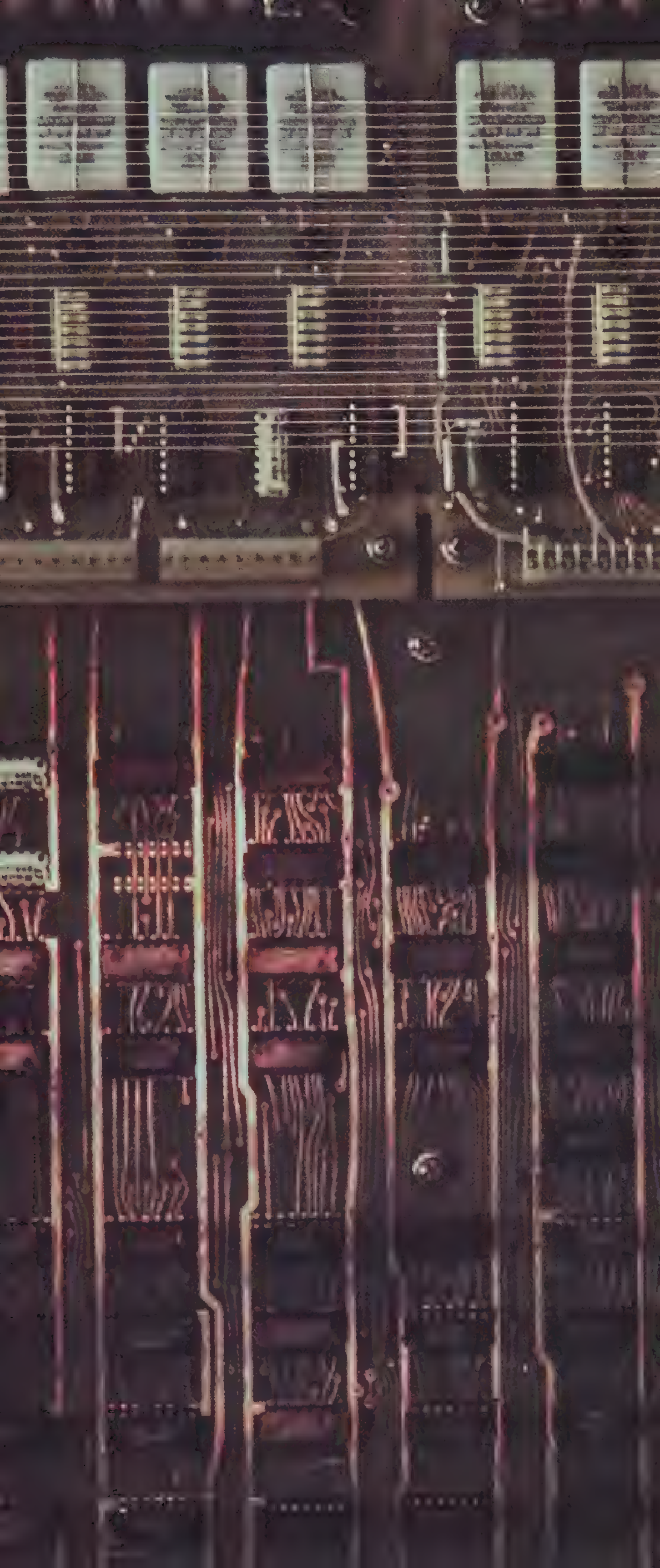
	Year Ended	Six Months Ended	
	Dec. 31, 1980	June 30, 1980	June 30, 1981
Net sales	$1,611,684	$ 781,780	$ 884,909
Gross profits	464,741	230,637	273,613
Operating earnings	148,000	78,700	81,800
Pretax earnings	91,197	52,980	52,975
Net earnings—continuing operations	57,577	31,490	33,768
Net earnings, discontinued operations	14,897	11,450	9,737
Net earnings	$ 72,474	$ 42,940	$ 43,505
Net earnings per common share			
Continuing operations	$ 1.66	$ .91	$ .94
Discontinued operations	.44	.34	.27
Total	$ 2.10	$ 1.25	$ 1.21
Average common shares outstanding	34,271	34,055	35,949
Additional statistics for continuing operations			
Gross margin	28.8%	29.5%	30.9%
Pretax margin	5.7%	6.8%	6.0%
Effective tax rate	36.9%	40.6%	36.3%

Gould Resources

Gould has built a strong tradition in research and product development which will be continued at both the corporate and division levels. New and advanced products will be the key to growth for both our electronics and electrical sectors in the future.

Gould's continuing success in its high technology businesses depends on the people of Gould. That's why one of our most important goals is maintaining the creative and challenging environment necessary to attract and to motivate superior people.

Gould's financial resources will also play an important role by providing the necessary funds for financing the working capital requirements, product development efforts and capital expenditure needs of Gould's growing businesses. The industrial business segment's divestiture for $375 million will provide a significant portion of these funds. Additionally, Gould's emphasis on strategic planning and financial controls will play an important role in guiding our growth in the 80s.



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GOULD
Electronics & Electrical Products

GC—120—A (50M—UP—1081)

Gould Inc

News Release

AR39

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An Electrical/Electronics Company

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JAN 22 1980

Release date: Immediate

GOULD: A HISTORY OF EXCEPTIONALLY DYNAMIC GROWTH AND DEVELOPMENT

Gould Inc., an international developer and manufacturer of electrical/electronic and industrial products, has quietly grown from a $115 million battery company in 1967 to a major corporation with sales in excess of $1.8 billion in 1978 -- increasing sales 16-fold and acquiring 34 other companies. The Company is headquartered in Rolling Meadows, Illinois, a suburb of Chicago and has 106 plants in the U.S., plus 35 operations in 13 foreign countries. Gould employs more than 38,000 people worldwide, including over 1,500 in 11 plants and 17 sales offices across Canada.

The Corporation has grown under the leadership of William T. Ylvisaker, Chairman of the Board, who joined Gould in 1967. Through new product development aimed at both market and technological leadership, a commitment to human resources development, and an aggressive acquisition and merger program, the Company has developed its principal businesses in four closely integrated technologies: electrochemistry, electromechanics, electronics, and metallurgy. These products include those which transmit, distribute, store, convert, measure, and control energy.

Gould's meteoric climb, however, brought the problem of identification. "What is Gould?" To help promote the Gould name, the Company has chosen Penske's top-rate racing team as a vehicle to promote 'name awareness'. In 1978, Gould sponsored "The Gould Charge", co-driven by Rick Mears and Mario Andretti, and was an associate sponsor of the Norton Spirit, another Penske car driven to the National Championship by Tom Sneva.

With the outstanding victory at the 1979 Indy 500, Mears and his sponsor, Gould Inc., hit the biggest jackpot in motor racing, both in their second year. For the 27-year old Mears, the checkered flag brought instant fame and a substantial amount of money. For Gould, it was a rewarding payoff, almost unmeasurable in dollar-market value, for its backing of the Penske team.

- continued

The Gould name, emblazoned on the sides and wings of the car, and on Mears' uniform was seen by millions on television and in print around the world.

Aerodynamic auto design is not Gould's business. But electronic measurement is. We're developing a microprocessor-based data acquisition system for on-board trials that will allow the Penske crew to fine-tune for wind-resistance just as carefully as they tune the engine and suspension.

Gould's business is developing and manufacturing electrical/electronic and industrial products. Included in this range are car-related products such as bearings, pistons, sleeves and brake components; powder metal products such as gears and housings; hydraulic products, including hoses and fittings; elastomer rubber-metal products for shock and vibration problems; and batteries for starting and communications.

So, in a way, the Gould-sponsored Penske car is really a test lab for many of our products. Because if they can withstand the test of an auto race, they ought to stand up to today's highways. When we work to develop a competitive edge for our race car, we're also helping develop a competitive edge for our company.

The racing program has not been limited to the upper echelons of management either. More than 38,000 Gould employees around the world are encouraged to participate. Gould employees picked "The Gould Charge" as the official name for the red, white and blue car. The car is available for display, often with the driver, at trade shows, open houses, shopping malls, groundbreaking ceremonies and a variety of community and/or employee events.

.. .. ..